INTRODUCTION
Securities and Exchange Commission of Pakistan ["SECP"] has issued SRO 1194(I)/2018 dated 2 October 2018 where under it has issued Companies (Related Party Transactions and Maintenance of Related Records) Regulations, 2018 ["Regulations"].

APPLICABILITY
These Regulations are applicable on all companies requiring them to maintain records under the registers at their head offices. They shall come into force at once except for regulation 7 "Records to be maintained in which directors are interested", which shall come into force on 1st January, 2019.

SCOPE
The Regulations have been issued as an extension to Section 208 of the Companies Act 2017 ["Act"]. Section 208 pertains to the transactions undertaken with related parties and contracts or arrangements in which directors are interested.

These Regulations provide guidelines for the identification of related parties and the proper conduct and documentation of all related party transactions.

CONDITIONS
Section 208 of the Companies Act 2017 ["Act"], inter alia, provides that a company may enter into any contract or arrangement with a related party only in accordance with the policy approved by the board of directors of the company, complying with following minimum conditions, namely:

- minimum information required for the related parties with whom transactions are to be made including nature of related party relationship at the time of approval in board meetings or general meetings;
- limitations or conditions that may be applicable in case of certain or particular related party transactions;
- potential risks of related party transactions and mitigating measures;
- procedure to be followed in case of failure to present related party transactions for approval by the appropriate forum within prescribed time; and
- pricing policy.

These conditions, however, will not be applicable on related party transactions entered into by a company in its ordinary course of business on an arm’s length basis.

ARM’S LENGTH BASIS
Transaction between related parties shall be characterized as an "arm’s length transaction", only if it is carried out in following manner, namely:

- the parties to the transaction were unrelated in any way;
- the parties were free from any undue influence, control or pressure;
- 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
- each party was concerned only to achieve the best available commercial result for itself in all the circumstances.

APPROVAL OF RELATED PARTY TRANSACTIONS
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; and
- 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.
In case where majority of the directors are interested in related party transactions, the matter shall be placed before the general meeting for approval as special resolution. In such case, information provided to directors, above, mutatis mutandis shall be provided to the member in the statement of material facts appended to the notice of the general meeting called for approval of the members for related party transactions.

The entries in the register shall be made in chronological order and shall be authenticated through signatures by the company secretary or by any other person authorised by the board in this behalf.

The company shall keep registers and records of all contracts, agreements and instruments in respect of transactions or arrangements with related parties at its registered office in the custody of the company secretary or any other person authorised by the board in this behalf and it shall be preserved in good order.

The company shall provide extracts from such register to a member of the company on his request, within seven days from the date on which such request is made upon the payment of such fee as may be specified in the articles of the company but not exceeding ten rupees per page.

Pursuant to the provisions of sub-section (2) of section 209 of the Act:

- director shall provide information to the company in the form specified in Annexure-II.
- director to give notice of the interest, above, and shall cause it to be disclosed at the meeting of the board held immediately after the date of the notice.

All such notices shall be kept at the registered office in the custody of the company secretary or any other person authorised by the board in this behalf and shall be preserved in good order.

Every company shall maintain one or more registers with regards to transactions undertaken with related parties and contracts or arrangements in which directors are interested and shall enter therein, in Annexure-1 hereto, 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.

RESPONSIBILITY OF BOARD

The board shall ensure:

- to educate and train management and relevant employees so that they can identify and report the related party transactions to the board or other authorized persons;
- to provide direction as to whom a director or employee can consult, in case where they are uncertain if a transaction is a related party transaction or not;
- to set general criteria to approve transactions or arrangement with related parties at various levels;
- to identify and determine whether a related party transaction requires members’ approval;
- that any related party transactions that require members’ approval are put before members;
- to fix the responsibility for identification and disclosure of related party transactions; and
- that the company meets its legal and regulatory obligations in relation to related party transactions.

OTHER INFORMATION TO BE DISCLOSED BY DIRECTORS

Pursuant to the provisions of sub-section (2) of section 209 of the Act:

- director shall provide information to the company in the form specified in Annexure-II.
- director to give notice of the interest, above, and shall cause it to be disclosed at the meeting of the board held immediately after the date of the notice.

All such notices shall be kept at the registered office in the custody of the company secretary or any other person authorised by the board in this behalf and shall be preserved in good order.
S.R.O. 1194 (I)/2018 - Related Party Transactions and Maintenance of Related Records

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

<table>
<thead>
<tr>
<th>Date of contract or arrangement</th>
<th>Name of the party with which contract is entered into</th>
<th>Principal terms and conditions</th>
<th>Reference of specific items - (a) to (f) under sub-section (1) of section 208, if applicable</th>
<th>Amount of contract or arrangement</th>
<th>Name of the interested director</th>
<th>Nature of concern or interest or change therein and relation with the party</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1)</td>
<td>(2)</td>
<td>(3)</td>
<td>(4)</td>
<td>(5)</td>
<td>(6)</td>
<td>(7)</td>
</tr>
</tbody>
</table>

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 Date of approval at the meeting of the board No. of directors present in the meeting Directors voting in favour

<table>
<thead>
<tr>
<th>(8)</th>
<th>(9)</th>
<th>(10)</th>
<th>(11)</th>
<th>(12)</th>
<th>(13)</th>
</tr>
</thead>
</table>

Directors voting against Directors remaining neutral Date of members’ approval, if any Upon cessation of the Contract / Arrangement, it’s status to be mentioned in this column Remarks

<table>
<thead>
<tr>
<th>(14)</th>
<th>(15)</th>
<th>(16)</th>
<th>(17)</th>
<th>(18)</th>
</tr>
</thead>
</table>

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

ANNEXURE - II

Notice of interest by director

[Pursuant to section 209 (2)]

To
The Board of Directors
________________Limited

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:

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Names of the companies /bodies corporate/ firms/ association</th>
<th>Nature of interest or concern / change in interest or concern</th>
<th>Shareholding (if any) [No. of shares &amp; percentage]</th>
<th>Date on which interest or concern arose / changed</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1)</td>
<td>(2)</td>
<td>(3)</td>
<td>(4)</td>
<td>(5)</td>
</tr>
</tbody>
</table>

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

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Sheikh Sultan Trust Building No. 2
Beaumont Road
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Telefax 92 (51) 282 2671
eMail islamabad@kpmg.com

www.kpmg.com.pk

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