

OUTSOURCING POLICY

CGS-CIMB Securities (India) Private Limited

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OUTSOURCING POLICY

1. PREAMBLE

1 'Outsourcing' may be defined as a use of one or more than one third party-either within or outside the group to perform the activities associated with services on a continuing basis, which would normally be undertaken by the company itself, now or in the future.

The world over, organizations are increasingly using outsourcing as a means of reducing costs. Such outsourcing activities however result in the company being exposed to various risks and therefore Securities & Exchange Board of India (hereinafter referred to as SEBI) has advised guidelines to be followed by intermediaries registered with SEBI to address the risks that an intermediary would be exposed to in lieu of growing outsourcing activity.

1.1 The underlying principles behind these guidelines are that the outsourcing arrangement does not diminish CGS-CIMB's ability to fulfill the obligations towards the customers as well as to the regulators nor does it impede effective supervision by the latter.

2. REGULATORY AND SUPERVISORY REQUIREMENTS:

2.1 The outsourcing of any activity by CGS-CIMB should not diminish its obligations, and those of its Board and Senior Management, who have the ultimate responsibility for the outsourced activity. CGS-CIMB would therefore be responsible for the actions of its service provider and the confidentiality of information pertaining to the customers that is available with the service provider.

2.2 All relevant laws, regulations, guidelines should be considered while performing due diligence in relation to outsourcing.

2.3 Outsourcing arrangements shall not affect the rights of an investor or client against CGS-CIMB in any manner. CGS-CIMB shall be liable for the loss incurred by them due to the failure of the third party service provider.

2.4 Outsourcing arrangement should not be allowed to impede or interfere with the ability to effectively oversee and manage its activities nor should it impede regulators in carrying out its supervisory functions and objectives.

2.5 The service provider, should not be owned or controlled by any director or officer/employee of CGS-CIMB or their relatives having the same meaning as assigned under Section 6 of the Companies Act, 1956.

3. EVALUATION OF RISKS

3.1 The service provider for outsourcing arrangements should be selected keeping in view the following types of outsourcing risks and applying appropriate risk mitigants to protect the interest of customers and immunize the company from any anticipated losses. The key risks in outsourcing that need to be evaluated therefore are:-

- a. Strategic Risk** - The service provider should not conduct business on its behalf, which is inconsistent with the overall strategic goals of the company.
- b. Reputation Risk** -The service provider should have the ability to provide services which are consistent with the overall standards of servicing of the company.
- c. Compliance Risk** -Privacy, consumer and prudential laws should be adequately complied with by the service provider.
- d. Operational Risk** - Risk would arise due to technology failure, fraud, error, inadequate financial capacity to fulfill obligations and/or provide remedies The service provider should have the ability to ensure business continuity under such circumstances.
- e. Legal Risk** - Includes but is not limited to exposure to fines, penalties or punitive damages resulting from supervisory actions, as well as private settlements due to omissions and commissions of the service provider.
- f. Exit Strategy Risk** - There should be no over-reliance on one firm leading to the loss of relevant skills in the company itself preventing it from bringing the activity back in-house and contracts entered into wherein speedy exits would be prohibitively expensive.
- g. Counterparty Risk** - The service provider should have resources and capabilities, including financial soundness to perform the work within the time lines fixed.

While approving any contract, the total exposure to a service provider and arrangement made by it towards business continuity should be invariably ascertained and a view should be taken accordingly.

3.2 Evaluation of the capability of the Service Provider

In considering or renewing an outsourcing arrangement, appropriate due diligence should be performed to assess the capability of the service provider to comply with the obligations in the outsourcing agreement. Due diligence should take into consideration qualitative and quantitative, financial, operational and reputation factors. It should be examined whether the service provider's systems are compatible with systems of CGS-CIMB and also whether their standards of performance including in the area of customer service are acceptable and within the timelines. While evaluating the capability of the service provider, issues relating to undue concentration of outsourcing arrangements with a single service provider should also be kept in mind. Wherever

possible, independent reviews and market feedback on the service provider should be obtained to supplement the internal findings.

3.3 The Outsourcing Agreement.

The terms and conditions governing the contract between the service provider should be carefully defined in written agreements and vetted by legal & compliance department on their legal effect and enforceability. Every such agreement should address the risks and risk mitigation strategies. The agreement should be sufficiently flexible to retain an appropriate level of control over the outsourcing and the right to intervene with appropriate measures to meet legal and regulatory obligations. The agreement should also bring out the nature of legal relationship between the parties i.e. whether agent, principal or otherwise. It should be ensured that the outsourcing agreement, inter alia, addresses the following issues:

- a. Defines clearly the activities to be outsourced, including appropriate service and performance standards, mutual rights, obligations of the parties including indemnities.
- b. It should provide for the liability of the third party for unsatisfactory performance/other breach of the contract.
- c. It should specify the responsibilities of the third party with respect to the IT security and contingency plans, insurance cover, business continuity and disaster recovery plans, force majeure clause etc.
- d. Lays down access to all books, records and information relevant to the outsourced activity available with the service provider.
- e. Provides for continuous monitoring and assessment of the service provider, so that any necessary corrective measure can be taken immediately.
- f. Controls to ensure customer data confidentiality and service providers' liability in case of breach of security and leakage of confidential customer related information & provide for maintenance of confidentiality of customer's information even after the contract expires or gets terminated
- g. Includes a termination clause and minimum periods to execute a termination provision, if deemed necessary.
- h. Calls for the prior approval/consent of CGS-CIMB for the use of sub-contractors by the service provider for all or part of an outsourced activity.

- i. Includes clauses to recognize the right of SEBI to allow SEBI or persons authorized by it to cause an inspection to be made of a service providers documents, records of transactions and other necessary information.
- j. Provides for the preservation of documents and data by the service provider in accordance with the legal/regulatory obligation.
- k. Provides for the mechanism to resolve disputes arising from implementation of the outsourcing agreement.

3.4 Access to customer information by staff of the service provider should be on 'need to know' basis, i.e. limited to those areas where the information is required in order to perform the outsourced function.

3.5 It should be ensured that the service provider is able to isolate and clearly identify the customer information, documents, records and assets to protect the confidentiality of the information. In instances, where service provider acts as an outsourcing agent for multiple brokers, care should be taken to build strong safeguards so that there is no commingling of information/ documents, records and assets.

3.6 To review and monitor the security practices and control processes of the service provider on a regular basis. The service provider would be required to disclose security breaches to the concerned authority in the event of any breach of security and leakage of confidential customer related information.

3.7 While evaluating a service provider, it should be ensured that it has developed and established a robust framework for documenting, maintaining and testing business continuity and recovery procedures. It should be ensured that the service provider periodically tests the business continuity and recovery plan.

3.8 As Outsourcing often leads to the sharing of facilities operated by the service provider, it should be ensured that service providers are able to isolate CGS-CIMB's information, documents, records and other assets. This is to ensure that in adverse conditions, all documents, records of transactions and information given to the service provider, and assets of CGS-CIMB, can be removed from the possession of the service provider in order to continue its business operations, or deleted, destroyed or rendered unusable.

Therefore, depending on the type of activity outsourced, the service provider should be able to provide appropriate Business Continuity Plan Documents.

4. VENDOR EVALUATION & APPROVAL PROCEDURE

The department within CGS-CIMB intending to engage a vendor for outsourcing shall forward the proposal note for the outsourcing arrangement to be implemented to the Compliance Department. The compliance department will assess that the arrangement meets with the regulatory and supervisory requirements and put up the proposal along with the necessary documents to the Outsourcing Committee. The arrangement will be examined by the compliance department on the following lines:

- a. Determine whether the outsourcing arrangement complies with the necessary regulatory guidelines.
- b. Determine whether the outsourcing arrangement complies with the necessary Labour/Statutory laws of the jurisdiction
- c. Determine the clauses to be put in to the Service Level Agreement to be signed with the vendor.

4.1 Framework for approval, review and control of Outsourcing activities.

The following authority structure has been formalized for approving all the outsourcing arrangements, both new and renewal:

Proposer	Department Head/Product Head
Evaluator	Compliance Department
Approver	Outsourcing Committee

Outsourcing Committee will comprise of Managing Director, Chief Operating Officer and Chief Risk Officer.

5. MONITORING AND CONTROL OF OUTSOURCED ACTIVITIES.

5.1 To have in place, a management structure to monitor and control its outsourcing activities. It should be ensured that outsourcing agreements with the service provider contain provisions to address their monitoring and control of outsourced activities.

5.2 Regular audits by either the internal auditors or external auditors should be ensured to assess the adequacy of the risk management practices adopted in overseeing and managing the outsourcing arrangement, CGS-CIMB's compliance with its risk management framework and the requirements of these guidelines.

5.3 To review the financial and operational condition of the service provider to assess its ability to continue to meet its outsourcing obligations on an annual basis. Such due diligence reviews, which can be based on all available information about the service provider should highlight any deterioration or breach in performance standards, confidentiality and security, and in business continuity preparedness.

6. OUTSOURCING WITHIN A GROUP/CONGLOMERATE

The risk management practices while outsourcing to a related party (i.e. party within the Group/Conglomerate) would be identical to those specified in these guidelines.

7. REPORTING OF TRANSACTIONS TO FIU OR OTHER COMPETENT AUTHORITIES.

It will be the responsibility of CGS-CIMB to report any Suspicious Transactions/Reports to FIU or any other competent authority in respect of the activities carried out by the third party service providers

8. OUTSOURCING ACTIVITIES:

8.1 Activities that shall not be outsourced

As per SEBI guidelines, the core business activities including compliance functions and decision making functions should not be outsourced. Accordingly the following core business activities will not be out sourced by CGS-CIMB

- Execution of orders;
- Settlement of Orders;
- Monitoring of trading activities of clients;
- Risk Management activities;

The provisions of SEBI {KYC (Know Your Client) Registration Agency} Regulations, 2011 and Guidelines issued there under from time to time should be adhered to.

9. EXCLUSIONS

These guidelines are concerned with managing risks in outsourcing of broking services and are not applicable to technology related issues and activities not related to broking services like usage of courier services, catering to staff, housekeeping, security of the premises etc.

10. REVIEW OF THE POLICY

The policy will be reviewed at yearly intervals or as and when considered necessary by the Board of Directors. The Outsourcing Committee will identify new material outsourcing risks or any adverse developments, which may arise and report to the Board, to facilitate it in putting up a report for further direction, if any.
