

# **Outsourcing Policy**

**National Securities Depository Limited**

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## 1. Introduction

The world over, various business entities are increasingly using outsourcing as a means of both reducing cost and accessing specialist expertise, not available internally and achieving strategic aims. Outsourcing refers to use of a third party – either within or outside the group - by an entity to perform the activities associated with the services provided by that entity. A third party may be used to perform one or more activities or one or more third parties may be used to perform different activities associated with the services. Such use may be for a specified period or on a continuing basis. Securities market intermediaries in many jurisdictions are increasingly resorting to outsourcing with a view to reduce costs, and at times, for strategic reasons. This benefits market in terms of better access and better expertise.

## 2. Need for an Outsourcing Policy

Outsourcing brings in its wake, several risks like Strategic Risk, Reputation Risk, Compliance Risk, Operational Risk, Legal Risk, Exit Strategy Risk, Counter party Risk, Country Risk, Contractual Risk, Access Risk, Concentration and Systemic Risk. The failure of an Outsourced Entity in providing a specified service, a breach in security/confidentiality, or non-compliance with legal and regulatory requirements by either the Outsourced Entity or the outsourcing organization, can lead to financial losses or loss of reputation for the organization and could also lead to systemic risks. It would therefore be imperative for the organization outsourcing its activities to ensure effective management of these risks. Further, as the third parties may not be subject to the same regulatory discipline, outsourcing raises a variety of concerns both for the regulator and the outsourcing intermediary. In order to address the concerns arising from the outsourcing of activities by intermediaries based on the principles advocated by the IOSCO and the experience of Indian markets, SEBI has prescribed the principles for outsourcing by intermediaries to be followed by all intermediaries registered with SEBI. Therefore, it is imperative to have a formal Outsourcing Policy in place in order to optimally use the outsourcing arrangements in the best interest of the business of NSDL and at the same time address the regulatory concerns and other risks involved in outsourcing.

## 3. Objectives

This Policy endeavor to achieve following objectives:

- a. Strengthen capacity – to ensure NSDL maintains an optimum capacity of quality resources which can enable / augment its operations.

- b. Build capability – Build / augment capabilities in both IT and non-IT departments to enable NSDL to deliver on expectations of our clients, investors and SEBI.
- c. Cost consciousness – Ensure the cost of operations are rationalized.

#### **4. Definition**

- a. “Policy” means the Outsourcing Policy of NSDL.
- b. “Procurement Committee” means an internal committee with members consisting of senior management of the Company.
- c. “Outsourced Entity” means an entity in business of supplying goods, services or facilities under an outsourcing arrangement.
- d. “Company” or “NSDL” means National Securities Depository Limited
- e. “Business Partner” means entities including but not limited to Depository Participants, Vault Managers, Issuers, Registrar and Share Transfer Agents, Professional firms, Clearing Corporations and such other entities as may be empaneled by NSDL.

#### **5. Responsibility for the Outsourcing Policy**

- a. The activities or the nature of activities that can be outsourced, from time to time and the selection of service provider to whom it can be outsourced shall be undertaken in accordance with the NSDL’s Procurement Policy and Procurement Process, subject to it being within the overall framework of this Outsourcing Policy specifically for the service providers that fall in the category of Outsourced Entity.

#### **6. Applicability**

- i. This Outsourcing Policy shall be applicable for use of one or more than one, third party; either within or outside the Company to perform the activities associated with services which the depository offers. This policy shall be applicable for any activity that the depository is obliged to carry out under the Depositories Act, 1996 or SEBI (Depositories and Participants) Regulations, 2018 or such other act, regulation or other laws as may prescribed from time to time.
- ii. All decisions regarding outsourcing taken by the Company and the activities undertaken by the Outsourced Entity on which this Policy is applicable as aforesaid shall be in line with this Outsourcing Policy.

## 7. Engagement of Outsourced Entity

- a. In case Outsourced Entity is engaged, then it must be ensured that the services of the Outsourced Entity are supervised by an employee of NSDL.
- b. While engaging Outsourced Entity, appropriate steps must be taken to protect the proprietary and confidential information and ensure that it is not misused or misappropriated.
- c. It must be ensured that the Outsourced Entity have limited access to the data handled and only on a “need to know” basis.
- d. The Company shall conduct appropriate due diligence in selecting Outsourced Entity to whom activity is proposed to be outsourced and ensure only reputed entities having proven high delivery standards are selected.

## 8. Activities that cannot be outsourced

- a. The core business activities of the Company as per the list provided in Schedule-I of this Policy shall not be outsourced. The list of activities may be added, deleted amended or altered from time to time.
- b. Any activity shall not be outsourced if it would impair the Management’s right to assess, or its ability to supervise the business of the Company.

## 9. Risk assessment and mitigation

- a. An assessment of outsourcing risk shall be made which depends on several factors, including the scope and materiality of the outsourced activity, etc. The factors that could help in considering materiality in a risk management programme shall include:-
  - i. The impact of failure of the Outsourced Entity to adequately perform the activity on the financial, reputational and operational performance of the Company and on the investors / Business Partners;
  - ii. Ability of the Company to cope up with the work, in case of non-performance or failure by the Outsourced Entity by having suitable back-up arrangements;

- iii. Regulatory status of the Outsourced Entity, including its fitness and probity status;
  - iv. Situations involving conflict of interest between the Company and the Outsourced Entity and the measures put in place by the Company to address such potential conflicts, etc.
  - v. Suitable measures for mitigation and prompt response to coercion and undue influence of any employees of NSDL.
  - vi. Framing and implementation of a whistleblower policy with a clear and defined mechanism.
  - vii. In instances, where the Outsourced Entity acts as an outsourcing agent for multiple companies (Intermediaries), the Company and the Outsourced Entity shall ensure that strong safeguards are put in place so that there is no co-mingling of information/documents, records and assets.
- b. A risk impact analysis should be undertaken before outsourcing any activity and appropriate risk mitigation measures like backup/restoration system are in place.
- c. While there shall not be any prohibition on a group entity / associate of the Company to act as the Outsourced Entity, systems shall be put in place to have an arm's length distance between the Company and the Outsourced Entity in terms of infrastructure, manpower, decision-making, record keeping, etc. for avoidance of potential conflict of interests. Necessary disclosures in this regard shall be made as part of the contractual agreement. It shall be kept in mind that the risk management practices expected to be adopted by the Company while outsourcing to a related party or an associate would be identical to those followed while outsourcing to an unrelated party.
- d. The records relating to all activities outsourced shall be preserved by the respective department who has outsourced its activity and in addition centrally by the Compliance Officer so that the same is readily accessible for review by the Governing Board and Senior Management, as and when needed.
- e. The concerned department shall provide copy of the documents and information of any new outsourcing arrangements to the Compliance Officer as and when it enters into such arrangement but not later than fifteen ( 15) days of signing the agreement or any material change thereof. Every concerned department as a part of the quarterly compliance report shall

submit status of compliance with this Outsourcing Policy to the Compliance Officer. Status of compliance of Outsourcing Policy will form part of the compliance report submitted by the Compliance Officer to the Governing Board.

- f. Reviews by internal or external auditors of the outsourcing policy, risk management system and requirements of the regulator shall be made wherever felt necessary. The financial and operational capabilities of the Outsourced Entity shall be reviewed in order to assess its ability to continue to meet its outsourcing obligations.
- g. Adherence to NSDL's Procurement Policy and Procurement Process for engaging any Outsourced Entity.
- h. It should be ensured that the outsourced activity is not further outsourced downward. In case of any further downstream outsourcing, prior consent of the Company is taken and appropriate safeguards including legal documentations / agreements are in place.
- i. All invoicing, purchase requisition should be routed through the procurement team for central control on costs commensurate with the agreed scope and payment milestones.

## 10. Accountability

While outsourcing any activity, the following points must be borne in mind:

- a. The Company shall be fully liable and accountable for the activities that are being outsourced to the same extent as if the service were provided in-house.
- b. Outsourcing arrangements shall not affect the rights of a Business Partner or investor against the Company in any manner. The Company shall be liable to the investors for the loss incurred by them due to the failure of the Outsourced Entity and also be responsible for redressal of the grievances received from investors arising out of activities rendered by the Outsourced Entity.
- c. The facilities / premises / data that are involved in carrying out the outsourced activity by the Outsourced Entity shall be deemed to be those of the Company.



- d. The Company itself, SEBI and any other regulator/ statutory authority or the persons authorised by it shall have the right to access the facilities / premises / data at any point of time.
- e. Outsourcing arrangements shall not impair the ability of SEBI/SRO or auditors to exercise its regulatory responsibilities such as supervision/inspection of the Company.
- f. The Company shall strive to automate their processes and workflows to the extent possible which shall enable real time monitoring of outsourced activities.

## **11. Due diligence in selecting the Outsourced Entity and in monitoring of its performance**

- a. Due care, skill, risk and diligence shall be undertaken in the selection of the Outsourced Entity to ensure that the Outsourced Entity has the ability and capacity to undertake the provision of the service effectively.
- b. Risk Department/ team shall be responsible for evaluation of a service provider on set of risk parameters before on-boarding as an Outsourced Entity. An indicative list of risk parameters shall be laid down from time to time. These parameters can be amended or added or deleted as per the discretion of the Risk Department/ team.
- c. Each Outsourced Entity shall be subject to annual evaluation based on the service level as may be notified from time to time.
- d. The due diligence undertaken shall include assessment of:
  - i. Outsourced Entity's resources and capabilities, including financial soundness, to perform the outsourcing work within the timelines fixed;
  - ii. compatibility of the practices and systems of the Outsourced Entity with the Company's requirements and objectives;
  - iii. market feedback of the prospective Outsourced Entity's business reputation and track record of their services rendered in the past;
  - iv. level of concentration of the outsourced arrangements with a single Outsourced Entity; and

- v. in case the Outsourced Entity is outside India, the geo-political environment and relationship of India with the foreign country where the Outsourced Entity is located.
- vi. Risk Department shall review and evaluate from the details available in public domain regarding any insolvency, bankruptcy, or similar proceedings, which may affect the going-concern of the Outsourced Entity.
- e. It must be ensured that there is an effective monitoring of the entity selected for outsourcing shall be done to ensure that there is a check on activities of the outsourced entity.
- f. Further, periodically utilization levels of outsourced manpower, goods or service needs to be reviewed and prudent steps need to be taken in case of under or over utilization. Utilization is to be assessed basis the time cards which are submitted subject to audits undertaken.

## 12. Outsourcing Agreement

- a. Outsourcing arrangements shall be governed by a clearly defined and legally binding written contract between the Company and each of the Outsourced Entity, the nature and detail of which shall be appropriate to the materiality of the outsourced activity in relation to the ongoing business of the Company. A contract would mean an agreement, purchase order or terms and conditions agreed upon in writing between the Company and Outsourced Entity.
- b. Care shall be taken to ensure that the outsourcing agreement:
  - i. clearly defines what activities are going to be outsourced, including appropriate service and performance levels;
  - ii. provides for mutual rights, obligations and responsibilities of the Company and the Outsourced Entity, including indemnity;
  - iii. provides for the liability of the Outsourced Entity to the Company for unsatisfactory performance/other breach of the contract and provides for the continuous monitoring and assessment by the Company of the service
  - iv. provides so that any necessary corrective measures can be taken up immediately, i.e., the contract shall enable the Company to

retain an appropriate level of control over the Outsourced Entity and the right to intervene with appropriate measures to meet legal and regulatory obligations;

- v. includes, where necessary, conditions of sub-contracting by the Outsourced Entity, i.e. the contract shall enable the Company to maintain a similar control over the risks when a Outsourced Entity outsources to further third parties as in the original direct outsourcing;
- vi. has unambiguous confidentiality clauses to ensure protection of proprietary, investor and other confidential data during the tenure of the contract and also for a specific term after the expiry of the contract; if required, modes and methods of exchanging data, adherence to data protection and data sharing practices of NSDL
- vii. specifies the responsibilities of the Outsourced Entity with respect to the IT security and contingency plans, insurance cover, business continuity and disaster recovery plans, force majeure clause, etc.;
- viii. provides for preservation of the documents and data by Outsourced Entity;
- ix. provides for the mechanisms to resolve disputes arising from implementation of the outsourcing contract;
- x. provides for termination of the contract, termination rights, transfer of information and exit strategies;
- xi. addresses additional issues arising from country risks and potential obstacles in exercising oversight and management of the arrangements when Company outsources its activities to foreign Outsourced Entity. For example, the contract shall include choice-of-law provisions and agreement covenants and jurisdictional covenants that provide for adjudication of disputes between the parties under the laws of a specific jurisdiction;

- xii. neither prevents nor impedes the Company from meeting its respective regulatory obligations, nor the regulator from exercising its regulatory powers;
- xiii. provides for the Company and /or the regulator or the persons authorised by it to have the ability to inspect, access all books, records and information relevant to the outsourced activity with the Outsourced Entity;
- xiv. Provides for ownership of Intellectual Property Rights in any tangible or intangible asset as may be created, developed, designed, procured, built for NSDL under the outsourced services.

### 13. Contingency plans

- a. Specific contingency plans wherever required shall be separately developed for each outsourcing arrangement, as is done in individual business lines.
- b. Appropriate steps must be taken to assess and address the potential consequence of a business disruption or other problems at the Outsourced Entity level.
- c. There should be contingency plans at the Outsourced Entity's end; co-ordination of contingency plans at both the Company and the Outsourced Entity; and contingency plans of the Company in the event of non-performance by the Outsourced Entity.
- d. To ensure business continuity, robust information technology security is a necessity. A breakdown in the IT capacity may impair the ability of the Company to fulfill its obligations to other market participants/clients/regulators and could undermine the privacy interests of its customers, harm the Company's reputation, and may ultimately impact on its overall operational risk profile. Systems should be in place to ensure that the Outsourced Entity maintains appropriate IT security and robust disaster recovery capabilities.

- e. Periodic tests of the critical security procedures and systems and review of the backup facilities shall be undertaken to confirm the adequacy of the Outsourced Entity's systems.

## **14. Protection of confidential information**

- a. While engaging an Outsourced Entity, appropriate steps must be taken to protect the proprietary and confidential customer information and ensure that it is not misused or misappropriated.
- b. It must be ensured that the employees of the Outsourced Entity have limited access to the data handled and only on a "need to know" basis and the Outsourced Entity shall have adequate checks and balances to ensure the same.
- c. In cases where the Outsourced Entity is providing similar services to multiple entities, it must be ensured that adequate care is taken by the Outsourced Entity to build safeguards for data security and confidentiality.

## **15. Review of the outsourcing arrangements and the Policy**

- a. An evaluation of risk concentrations, limits on the acceptable overall level of outsourced activities, risks arising from outsourcing multiple activities to the same entity, etc. shall be made on a periodic basis.
- b. The information about all outsourced activities shall be placed before the Governing Board for review and directions on an annual basis.
- c. The Outsourcing Policy shall be approved by the Governing Board of NSDL and any amendment to the Outsourcing Policy can be made with the approval of the Governing Board.
- d. The Outsourcing Policy shall be reviewed as and when required and in any case on an annual basis by the Governing Board.

## **16. Audit**

The Outsourcing Policy document shall act as a reference for audit of the outsourced activity. Audit of implementation of risk assessment and mitigation

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measures listed in the Outsourcing Policy document and outsourcing agreement/service level agreements pertaining to IT systems shall be part of System Audit.

## Schedule-I

NSDL shall not outsource its core and critical activities. The core activities of NSDL shall include the following:

1. Processing of the applications of the entities for becoming Depository Participants(DPs), Issuers and Registrar & Transfer Agents (RTAs), Vault Manager or such other entities.
2. Inspections of Depository Participants and Issuers/Registrar and Transfer Agents connected to NSDL.
3. Allotting ISINs for securities.
4. Facilitating Issuers/Registrar and Transfer Agents to execute Corporate Actions.
5. Execution of settlement and other incidental activities for pay-in/ pay-out of securities.
6. Monitoring and redressal of Investor Grievances.
7. Surveillance Functions.
8. Compliance Functions.
9. Reporting obligations to Financial Intelligence Unit (FIU) or any other competent authority.
10. Maintenance and safekeeping of Beneficial Owners' data.
11. Execution of transfer of securities and other transactions like pledge, freeze etc.
12. Provision of internet based facility for access to demat accounts and submitting delivery instructions.
13. Ensuring continuous connectivity to empaneled Business Partners, Clearing Corporations and other Depository.

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14. Monitoring continuous connectivity to empaneled Business Partners, Clearing Corporations and other Depository.

Further, Core IT (Information Technology) support infrastructure/activities for running the above core activities of NSDL shall not be outsourced to the extent possible.