

Policy on Outsourcing of Activities

1. Foreword:

- 1.1. This policy emanates from Circular CIR/MRD/DP/19/2015 dated December 09, 2015 issued by the issued by the Securities and Exchange Board of India (“SEBI”) (“December 2015 Circular”) with respect to Outsourcing by Depositories read with Circular CIR/MIRSD/24/2011 dated December 15, 2011 issued by SEBI in respect of Guidelines on Outsourcing of Activities by Intermediaries (“December 2011 Circular”) (“SEBI Circulars”).
- 1.2. SEBI through the December 2015 Circular directed all depositories, including the Central Depository Services (India) Limited (“CDSL”) to formulate and document an outsourcing policy duly approved by the board of directors based on the guidelines mentioned therein and in the December 2015 Circular.

2. Objective:

To ensure that core activities as specified in the abovementioned SEBI Circulars are not outsourced and that whenever any activity is outsourced, checks and balance outlined in this policy are observed.

3. Prohibition on Outsourcing:

- 3.1. CDSL as a depository shall not outsource its following core activities:-
 - a. Processing of the applications for admission of Depository Participants (DPs), Issuers and Registrar & Transfer Agents (RTAs). However function of storing of related documents and records may be outsourced to a reputed vendor specialising in this line of business.
 - b. Facilitating Issuers/RTAs to execute Corporate Actions. However documents/records relating to corporate actions may be stored with a reputed vendor specialising in this line of business.
 - c. Allotting ISINs for securities.
 - d. Maintenance and safekeeping of Beneficial Owner’s data.
 - e. Execution of settlement and other incidental activities for pay-in/ pay-out of securities.
 - f. Execution of transfer of securities and other transactions like pledge, freeze, etc.
 - g. Provision of internet based facilities for access to demat accounts and submitting delivery instructions.
 - h. Ensuring continuous connectivity to DPs, RTAs, Clearing Corporations and other Depository. However CDSL would facilitate its DPs, RTAs, Clearing Corporations and other Depository to obtain connectivity from the service providers and will not deactivate any DP or RTA except when in case of termination, after following due process of termination.
 - i. Monitoring and redressal of investor grievances.

- j. Inspection of DPs and RTAs. However activity of making entry of Audit/Inspection Reports received from the DPs in CDSL back office system i.e. maker level activity may be outsourced who will perform the job under the supervision of employees of CDSL.
 - k. Surveillance Functions.
 - l. Compliance Functions.
- 3.2. Further core activities of Information Technology should not be out sourced to the extent possible. Maintenance of depository system may be outsourced to a vendor of repute who will work will be tested by the in-house CDSL team before release. Peripheral software development and maintenance may be outsourced after following due diligence guidelines. Hardware if take on lease from a reputed vendor, will be housed in CDSL premises with AMC arrangements.

4. Implementation:

- 4.1. The department of CDSL which proposes to outsource its activities should ensure that risk impact analysis is undertaken before out sourcing an activity and that the activity to be outsourced is a non core activity.
- 4.2. CDSL shall conduct appropriate due diligence in selecting the third party and in monitoring of its performance.
- 4.3. Outsourcing relationships will be governed by written contract arrangements/ terms and conditions that clearly describe all material aspects of the outsourcing arrangement, including the rights, responsibilities and expectations of the parties to the contract, termination procedures. A separate confidentiality/ non-disclosure agreement will be entered into with the counterparty prior to any outsourcing of activities.
- 4.4. Vendor selected for outsourcing any activity should be of repute and should have experience and expertise in the line of business that he is handling by checking its antecedents.
- 4.5. There should not be conflict of interest in the process of selection of a vendor.
- 4.6. Vendor shall have Business Continuity and Disaster Recovery Plan in place so as to ensure uninterrupted service to CDSL and for taking care of contingencies.
- 4.7. Vendor should be made aware of CDSL's Recovery Time Objective of 4 hours as decided for ISO Certification.
- 4.8. Agreement with the vendor should contain clause pertaining to non-poaching of employees.
- 4.9. Vendor should not be allowed to further assign/sub-contract the activities to any third party without CDSL's consent in writing. It may be permitted only when a vendor has entered into back to back agreement with the third party and after doing due diligence on such third party.

4.10. The concerned department which proposes to outsource its activities shall take the approval of the MD & CEO for appointment of vendor by detailing in the memorandum how the selection of vendor has been done as per the laid down policy.

5. Audit

The department which proposes to outsource any activity should describe in the memorandum detailed task to be outsourced to a vendor, so that the memorandum acts as a basis / reference point for audit of activities.

6. Caveat

No outsourcing arrangement should impair the ability of CDSL / Auditor /Regulator to exercise its responsibility of supervision/inspection.

7. Review

The concerned department which has outsourced its activities shall review the arrangement at regular intervals in the wake of changing business environment.