SHRI KRISHNA SHARE BROKERS PVT LTD

Members: NSE Stock Exchange and BSE Stock Exchange

OUTSOURCING POLICY

An **Outsourcing Policy** for stock brokers establishes the framework for outsourcing certain activities to third-party service providers while ensuring that risks are managed, regulatory compliance is maintained, and client interests are protected. This policy helps brokers outsource non-core activities without compromising the integrity of their operations.

1. Objective of the Policy

- **Operational Efficiency:** Facilitate the outsourcing of non-core activities to improve efficiency, reduce costs, and focus on core competencies.
- **Risk Management:** Ensure that risks associated with outsourcing are identified, assessed, and mitigated.
- **Regulatory Compliance:** Comply with SEBI and stock exchange guidelines concerning outsourcing to protect client interests and maintain accountability.
- **Data Security and Confidentiality:** Protect sensitive client data and maintain confidentiality while outsourcing functions.

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2. Scope of the Policy

This policy applies to all outsourcing activities by the stock broker, including but not limited to:

- **Back-office operations**
- **Data processing**
- **Information technology (IT) support**
- **Compliance functions**
- **Call centers or customer service**
- **Accounting and finance**
- **Human resource management**

The policy covers both **domestic and international** outsourcing arrangements and sets the terms under which third-party vendors are selected, monitored, and evaluated.

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3. Activities Permitted for Outsourcing

The following activities can typically be outsourced, subject to compliance with regulatory norms:

- **IT Services:** Infrastructure management, software development, and data storage.
- **Call Center Operations:** Customer support, complaint resolution, and help desk services.
- **Back-office Functions:** Clearing, settlement, and reconciliation of trades.
- **Accounting and HR:** Payroll processing, bookkeeping, and HR management systems.

Note: Certain critical functions, such as decision-making related to risk management or client fund management, cannot be outsourced as they remain the primary responsibility of the broker.

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4. Selection of Third-Party Vendors

4.1 Vendor Due Diligence

- Before engaging with an external service provider, the stock broker must conduct thorough **due diligence** to ensure the vendor has the necessary qualifications, financial stability, and operational capability.
- Vendors must comply with applicable **regulatory requirements** and demonstrate an ability to maintain confidentiality, data security, and service quality.
- Due diligence should assess:
    - **Track record** of the vendor.
    - **Financial viability** and **creditworthiness**.
    - **Technical expertise** and **infrastructure**.
    - **Compliance with laws** and **regulations**.
    - **Security protocols** and **disaster recovery plans**.

4.2 Legal Agreements and Contracts

- All outsourcing arrangements must be formalized through a **written agreement or contract** that clearly defines the roles, responsibilities, and expectations of both parties.
- Contracts should specify:
    - **Service Level Agreements (SLAs):** Expectations around performance, timelines, and quality.
    - **Data Confidentiality Clauses:** Provisions to protect sensitive client information.
    - **Compliance with SEBI and Exchange Guidelines.**

- **Termination Clauses:** Conditions under which the contract can be terminated.
- **Reporting Requirements:** Regular reporting and performance metrics.
- **Audit Rights:** The broker's right to audit the vendor's processes and controls.

4.3 Approval and Documentation

- Outsourcing arrangements must be approved by senior management and documented, including the rationale for outsourcing, risk assessments, and vendor details.
- The decision to outsource must align with the broker's business objectives and compliance requirements.

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5. Risk Management and Monitoring

5.1 Risk Assessment

- The stock broker must assess potential risks associated with outsourcing, including:
  - **Operational Risks:** Potential disruption of services due to vendor failure.
  - **Data Security Risks:** Breach or unauthorized access to sensitive data.
  - **Reputational Risks:** Vendor-related issues impacting the broker's reputation.
  - **Regulatory Risks:** Failure of the vendor to comply with legal requirements.
- **Risk Mitigation Strategies** should be implemented, such as backup service providers, contractual safeguards, and regular monitoring.

5.2 Monitoring of Outsourced Activities

- Once outsourcing arrangements are in place, the broker must ensure continuous **monitoring** of the vendor's performance, focusing on:
  - **Adherence to SLAs**
  - **Quality of service**
  - **Compliance with laws and regulations**
  - **Data protection measures**
- **Periodic reviews and audits** should be conducted to verify that the vendor is maintaining agreed-upon standards and controls.

5.3 Reporting and Accountability

- The service provider must regularly report on their performance, and these reports should be reviewed by the broker to ensure accountability.
- Any significant issues or deviations should be escalated to senior management for immediate resolution.

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6. Data Security and Confidentiality

6.1 Data Protection Measures

- Vendors must adhere to strict **data protection protocols** to prevent unauthorized access, misuse, or theft of client information.
- Contracts should specify the vendor's obligation to comply with **data privacy laws** (such as the **Information Technology Act** or **GDPR** if applicable).
- **Encryption** and **secure transmission protocols** must be used for data handling, especially when data is shared or transmitted electronically.

6.2 Confidentiality Clauses

- Vendors must agree to stringent **confidentiality clauses** that ensure no client data is disclosed to unauthorized parties.
- Breaches of confidentiality must be reported to the broker immediately, and appropriate remedial actions should be taken.

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7. Regulatory and Compliance Requirements

7.1 SEBI Guidelines on Outsourcing

- Stock brokers must comply with SEBI's guidelines, which dictate that brokers retain full responsibility for any outsourced activities.
- Brokers must ensure that outsourcing does not affect their ability to:
    - Meet **regulatory obligations**.
    - Ensure **client protection**.
    - Maintain **business continuity**.

7.2 Regulatory Reporting

- Brokers must notify regulators and exchanges about significant outsourcing arrangements if required.
- Ensure that all outsourced activities are performed in compliance with **SEBI Circulars** and **stock exchange rules**.

7.3 Responsibility for Compliance

- Despite outsourcing, the broker remains responsible for ensuring that outsourced activities comply with all applicable regulations.
- Outsourcing arrangements should not result in the broker losing control or oversight of the outsourced functions.

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8. Business Continuity and Contingency Planning

8.1 Continuity of Services

- Brokers must ensure that outsourcing arrangements do not disrupt their business continuity.
- Vendors should have **disaster recovery** and **business continuity plans** in place to maintain operations in the event of disruptions such as cyberattacks, natural disasters, or technical failures.

8.2 Exit Strategy

- Brokers must have an **exit strategy** in case the outsourcing arrangement is terminated. This includes identifying alternative vendors or bringing outsourced activities in-house.
- A **transition plan** should be in place to ensure continuity of services during the termination of contracts or changes in vendors.

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9. Client Communication

9.1 Client Consent

- In cases where client-related activities are outsourced, brokers should obtain **explicit client consent** before sharing their data or engaging in outsourcing activities that could affect the client's experience.

9.2 Transparency

- Clients should be informed about the outsourcing of critical functions, especially those involving the handling of client data or trade execution.
- **Disclosure of Outsourcing Arrangements** should be made clear in account-opening forms or client agreements.

10. Review and Update of Policy

- The outsourcing policy should be **reviewed periodically** to ensure it remains up to date with changing regulations, market practices, and technological advancements.
- Any changes to the policy must be communicated to stakeholders, including vendors, clients, and employees.