

Outsourcing of Activities by Intermediaries Policy (Version 2024-25)

SEBI vide its circular no. CIR/MIRSD/24/2011 dated December 15, 2011 issued a general guideline on Outsourcing of Activities by Intermediaries, SEBI decided to put in place comprehensive guidelines to collectively cover principles for outsourcing for Intermediaries.

quant Institutional Equities Private Limited (QIEPL) has not outsourced any business activities except the clearing & settlement business to SMC Global Securities Ltd. In view of the above circular Board has decided to streamline the policy in line of the SEBI.

“QIEPL” here referred to quant Institutional Equities Private Limited

Principles for Outsourcing for QIEPL

1. The Board of the QIEPL shall have the responsibility for the outsourcing and related overall responsibility for activities undertaken.

Only those activities which will, if outsourced would not impair the supervisory authority’s right to assess, or its ability to supervise the business of the QIEPL are outsourced.

The Board mandates a regular review of outsourced activities. It also have overall responsibility for ensuring that all outsourcing decisions taken by QIEPL and the activities undertaken by the third party, are in keeping with its outsourcing policy.

2. The QIEPL establishes a comprehensive outsourcing risk management programme to address the outsourced activities and the relationship with the third party.

QIEPL makes an assessment of outsourcing risk 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 include:-

- The impact of failure of a third party to adequately perform the activity on the financial, reputational and operational performance of the QIEPL and on the investors/ clients;
- Ability of QIEPL to cope up with the work, in case of non-performance or failure by a third party by having suitable back-up arrangements;
- Regulatory status of the third party , including its fitness and probity status;
- Situations involving conflicts of interest between QIEPL and third party and the measures put in place by the company to address such potential conflicts, etc.

While there are no prohibition on a group entity/ associate of the QIEPL to act as the third party, systems is put in place to have an arm’s length distance between the QIEPL and the third party in terms of infrastructure, manpower, decision-making, record keeping, etc. for avoidance of potential conflict of interests. Necessary disclosures in this regard will be made as part of the contractual agreement. Risk Management practices expected to be adopted by Company while Outsourcing to a related party or associate would be identical to those followed while outsourcing to an unrelated party.

The records related to all activities outsourced are preserved centrally so that the same is readily accessible for review by the Board of the QIEPL or its senior management, as and when needed. Such records are regularly updated and may also form part of the corporate governance review by the management of the intermediary.

Regular reviews by Internal/External auditors of the outsourcing policy, risk management system and requirements of the regulator shall be assess, the QIEPL reviews the financial and operational capabilities of the third party in order to assess its ability to continue to meet its outsourcing obligations.

3. The Company ensures that the outsourcing arrangements neither diminish its ability to fulfill its obligations to customers and regulators, nor impede effective supervision by the regulators.

- The QIEPL is fully liable and accountable for the activities that are being outsourced to the same extent as if the service were provided in-house.
- Outsourcing arrangements does not affect the rights of an investor or client against the QIEPL in any manner. The QIEPL would be liable to the investors for the loss incurred by them due to the failure of the third party and also be the responsible for redressal of the grievances received from the investors arising out of activities rendered by the third party.
- The facilities/ premises/ data that are involved in carrying out the outsourced activity by the service provider shall be deemed to be those of the QIEPL. The QIEPL itself and Regulator or the persons authorized by it shall have the right to access the same at any point of time.
- Outsourcing arrangements does not impair the ability of SEBI/ SRO or auditors to exercise its regulatory responsibilities such as supervision /inspection of QIEPL.

4. The Company conducts appropriate due diligence in selecting the third party and in monitoring of its performance.

QIEPL exercises due care, skill and diligence in the selection of the third party to ensure that the third party has the ability and capacity to undertake the provision of the service effectively.

The due diligence undertaken by QIEPL includes assessment of:

- Third party's resources and capabilities, including financial soundness, to perform the outsourcing work within the timelines fixed;
- Compatibility of the practices and systems of the third party with the intermediary's requirements and objectives;
- Market feedback of the prospective third party's business reputation and track record of their services rendered in the past;
- Level of concentration of the outsourced arrangements with a single third party;
- The environment of the foreign country where the third party is located.

5. Outsourcing relationships governed by written contracts/ agreements/ terms and conditions (as deemed appropriate) {hereinafter referred to as “agreement”} that clearly describe all material aspects of the outsourcing arrangement, including the rights, responsibilities and expectations of the parties to the agreement, client confidentiality issues, termination procedures, etc.

Outsourcing arrangements governed by a clearly defined and legally binding agreement between the QIEPL and the third party, the nature and detail of which shall be appropriate to the materiality of the outsourced activity in relation to the ongoing business of the QIEPL.

Care shall be taken to ensure that the outsourcing agreement:

- Clearly defines what activities are going to be outsourced, including appropriate service and performance levels;
- Provides for mutual rights, obligations and responsibilities of the QIEPL and the third party, including indemnity by the parties;
- Provides for the liability of the third party to the Company for unsatisfactory performance/ other breach of contract;
- Provides for the continuous monitoring and assessment by QIEPL of the third party so that necessary corrective measures can be taken up immediately, i.e. the contract shall enable the QIEPL to retain an appropriate level of control over the outsourcing and the right to intervene with appropriate measures to meet legal and regulatory obligations;
- Includes, where necessary, conditions of sub-contracting by the third party, i.e. the agreement shall enable QIEPL to maintain a similar control over the risks when a third party outsources to further third parties as in the original direct outsourcing;
- Has unambiguous confidentiality clauses to ensure protection of proprietary and customer data during the tenure of the agreement and also after the expiry of the agreement;
- Specifies the responsibilities of the QIEPL with respect to the IT security and contingency plans, insurance cover, business continuity and disaster recovery plans, force majeure clause, etc.;
- Provides for preservation of documents and data by QIEPL;
- Provides for the mechanisms to resolve disputes arising from implementation of the outsourcing agreement;
- Provides for termination of the contract, termination rights, transfer of information and exit strategies;
- Addresses additional issues arising from country risks and potential obstacles in exercising oversight and management of the arrangements when intermediary outsources its activities to foreign parties;
- Neither prevents nor impedes the QIEPL from meeting its respective regulatory obligations, nor the regulator from exercising its regulatory powers;
- Provides for QIEPL and/or the regulator or the persons authorized by it to have the ability to inspect, access all the books, records and information relevant to the outsourced activity with the third party.

6. The Board and its third party establishes and maintains contingency plans, including a plan for disaster recovery and periodic testing of backup facilities.

- Specific contingency plans are separately developed for each outsourcing agreement, as is done in individual business lines.
- QIEPL takes appropriate steps to assess and address the potential consequence of a business disruption or other problems at the third party level. Notably, it shall consider contingency plans at the third party; co-ordination of contingency plans at both the QIEPL and the third party; and the contingency plans of the QIEPL in the event of non-performance by the third party;
- QIEPL ensures business continuity, robust information technology security is a necessity. A breakdown in the IT capacity may impair the ability of the QIEPL to fulfill its obligations to other market participants/ clients/ regulators and could undermine the privacy interests of its customers, harm the QIEPL's reputation, and may ultimately impact on its overall operational risk profile. QIEPL shall, therefore, seek to ensure that QIEPL maintains appropriate IT security and robust disaster recovery capabilities.
- Periodic tests of the critical security procedures and systems and review of the backup facilities shall be undertaken by QIEPL.

7. The QIEPL takes appropriate steps to require that QIEPL protect confidential information of both QIEPL and its customers from intentional or inadvertent disclosure to unauthorized persons.

- QIEPL takes appropriate steps to protect its proprietary and confidential customer information and ensure that it is not misused or misappropriated.
- QIEPL prevails upon the third party to ensure that the employees of the third party have limited access to the data handled and only on a "need to know" basis and the third party have adequate checks and balances to ensure the same.
- In cases where the third party is providing similar services to multiple entities, QIEPL ensures that adequate care is taken by the third party to build safeguards for data security and confidentiality.

8. Potential risks posed where the outsourced activities of multiple intermediaries are concentrated with a limited number of third parties.

In instances, where the third party acts as an outsourcing agent for multiple stock brokers, it is the duty of the third party and QIEPL to ensure that strong safeguards are put in place so that there is no co-mingling of information/ documents, records and assets.