

# ASIAN MARKETS — SECURITIES —

## OUTSOURCING POLICY

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**INDEX**

1. Introduction
2. Activities or the nature of activities that is outsourced
3. Review on outsourcing policy
4. Risk Management Programme
5. Due diligence in selecting the third party for outsourcing activities
6. Legally binding written contract
7. Contingency Plans
8. Confidentiality
9. Disclaimer



## 1. Introduction:

Asian Markets Securities Private Limited (AMSEC) is a SEBI Registered Intermediary as a Portfolio Manager having registration no. INP000004680. Accordingly, it is required that AMSEC shall render at all times high standards of service and exercise due diligence and ensure proper care in its operations.

SEBI being a regulatory authority has mandated to all the intermediaries' registered with it to comply with various regulatory requirements and guidelines from time to time. One such Guideline on Outsourcing of Activities by Intermediaries has been issued by SEBI vide its Circular no. CIR/MIRSD/24/2011 dated December 15, 2011.

Outsourcing may be defined as the use of one or more than one third party – either within or outside the group - by a registered intermediary to perform the activities associated with services which the intermediary offers. In other terms, outsourcing involves transferring responsibility for carrying out an activity of an intermediary (previously carried on internally, if any) to an outsourcer for an agreed charge. The outsourcer provides services to the customer (intermediary) based on a mutually agreed service level, normally defined as per mutual terms and conditions or as per a formal contract.

SEBI has defined outsourcing as the use of one or more than one third party – either within or outside the group – by registered intermediary to perform the activities associated with services which the intermediary offers.

### **Principles for Outsourcing**

The risks associated with outsourcing may be operational risk, reputational risk, legal risk, country risk, strategic risk, exit-strategy risk, counter party risk, concentration and systemic risk. 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 had prepared a concept paper on outsourcing of activities related to services offered by intermediaries.

Based on the feedback received on the discussion paper and also discussion held with various intermediaries, stock exchanges and depositories, the principles for outsourcing by intermediaries have been framed. These principles shall be followed by all intermediaries registered with SEBI.

### **Key Highlights of the Policy:**

The Board of the AMSEC has the responsibility for the outsourcing and related overall responsibility for activities undertaken under that policy.

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



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

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

The company ensures that outsourcing relationships will be governed by written contracts / agreements /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/agreement, client confidentiality issues, termination procedures, etc.

The Company (AMSEC) and its third parties establishes and maintains contingency plans, including a plan for disaster recovery and periodic testing of backup facilities.

The Company shall take appropriate steps to require that third parties protect confidential information of both the AMSEC and its customers from intentional or inadvertent disclosure to unauthorized persons.

#### **Activities that shall not be outsourced**

Asian Market Securities Pvt. Ltd. shall not, however, outsource their core business activities and compliance functions. A few examples of core business activities may be – execution of orders and monitoring of trading activities of clients in case of stock brokers, dematerialization of securities in case of Depository Participants, investment related activities in case of Mutual Funds and Portfolio Managers.

The intermediaries shall be responsible for reporting of any suspicious transactions / reports to FIU or any other competent authority in respect of activities carried out by the third parties.

In view of the changing business activities and complexities of various financial products, intermediaries shall conduct a self assessment of their existing outsourcing arrangements within a time bound plan not later than 6 months from the date of issuance of this circular and bring them in line with the requirements of guidelines / principles.

Regarding Know Your Client (KYC) requirements, The intermediaries shall comply with the provisions of SEBI {KYC(Know Your Client) Registration Agency} Regulations, 2011 and Guidelines issued there under from time to time

#### **Activities or the nature of activities that is outsourced**

In the light of this policy and in due compliance of SEBI's captioned circular dated December 15, 2011, AMSEC shall outsource the following activities relating to

- Fund Accounting Services
- Domestic Fund Services



However, the core business activities such as compliance functions, execution of orders, investment related activities, KYC requirements as per SEBI (KRA) Regulations, 2011 etc. shall not be outsourced.

#### **Authorities approving the Activities**

The Board of Directors of the Company shall be responsible for approving and selecting the activities outsourced / to be outsourced. However, the review of the activities outsourced shall be done by the Management Committee of Board of Directors of AMSEC at regular intervals as it may deem fit in the wake of changing business environment.

### **2. Review on outsourcing policy**

AMSEC shall at least on an annual basis, review the financial and operational condition of activities outsourced to assess its ability to continue to meet its outsourcing obligations. Such due diligence reviews, which can be based on all available information about Third party and should highlight any deterioration or breach in performance standards, confidentiality and security, and in business continuity preparedness.

Further, the Management Committee shall be responsible for assessing and evaluating the risks during the review of the outsourcing activities and take necessary action in case if any discrepancy is found during the process. The risks associated with outsourcing can be categorized as operational risk, reputational risk, legal risk, country risk, exit-strategy risk, counter party risk, etc.

### **3. Risk Management Programme**

#### **Evaluation of Third Party:**

AMSEC has established a comprehensive risk management programme to address the outsourced activities and the relationship with Third Party in case of its failure to adequately perform the activity on the financial, reputational and operational performance of AMSEC and on the investors / clients.

AMSEC's ability to cope up with the work, in case of non-performance or failure by Third Party by having suitable back-up arrangements remains key practice that forms part of the risk management programme. The records relating to all activities outsourced shall be preserved centrally so that the same is readily accessible for review by the Board of AMSEC and / or its senior management, as and when needed. Such records shall be regularly updated and may also form part of the corporate governance review by the management of AMSEC.

Regular reviews by internal or external auditors of the outsourcing policies, risk management system and requirements of the regulator shall be mandated by the Board of AMSEC wherever felt necessary. AMSEC shall assess the Regulatory status of third party including its fitness and probity status and situations involving conflict of interest



between the Company and the third party and the measures put in place by the Company to address such potential conflicts, etc.

Also, as a part of the programme, AMSEC shall review the financial and operational capabilities of the third party in order to assess its ability to continue to meet its outsourcing obligations.

#### **Outsourcing Policy – AMSEC**

Outsourcing the function to the outsourcer, taking into account the above factors as presented by the Management Committee. If the risks involved are high and the commercial benefits are marginal (e.g. if the controls necessary to manage the risks are too costly), the function shall not be outsourced. Outsourcing policy shall not impair the ability of SEBI/SRO or Auditors to exercise its regulatory responsibilities such as supervision/inspection of the intermediary.

#### **Outsourcing to Related Party**

In case the Company is desirous of appointing any group entity / associate of the Company as the third party for outsourcing of activities, it shall take due care and ensure that an arm's length distance has been maintained between the Company and the related third party in terms of infrastructure, manpower, decision-making, record-keeping, etc. for avoidance of potential conflict of interests. Necessary disclosures shall be obtained by the Company from the third party and shall be made integral part of the contractual agreement. Further, the Company shall ensure that the risk management practices 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.

#### **Maintenance of Records**

The records relating to all activities outsourced shall be preserved centrally i.e. at the Corporate / Head office so that the same is readily accessible for review by the Board and / or Management Committee as and when needed. Management Committee shall ensure that such records are regularly updated and may also form part of the corporate governance review by the management.

#### **Reviews by Internal or External Auditors**

Wherever felt necessary, the Board shall mandate regular reviews by Internal or External Auditors of the outsourcing policies, risk management system and requirements of the regulator. Further, the financial and operational capabilities of the third party in order to assess its ability to continue to meet its outsourcing obligations shall be reviewed as and when deemed fit and proper.



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**Accountability**

- AMSEC 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.
- Outsourcing arrangements shall not affect the rights of an investor or client 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 third party and also be responsible for redressal of the grievances received from investors arising out of activities rendered by the third party.
- The facilities / premises and data that are involved in carrying out the outsourced activity by the third party shall be deemed to be those of the Company and that the Company itself and Regulator or the persons authorized by it shall have the right to access the same at any point of time.
- Outsourcing arrangements shall not impair the ability of SEBI/SRO or auditors to exercise its regulatory responsibilities such as supervision / inspection of the Company.

**4. Due diligence in selecting Third Party for outsourcing activities:**

AMSEC shall conduct appropriate due diligence in selecting the third party and monitor its performance.

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

The due diligence undertaken by AMSEC shall include assessment of:

- a. Third Party resources and capabilities, including financial soundness, to perform the outsourcing work within the timelines fixed
- b. Compatibility of the practices and systems of Third Party with AMSEC's requirement and objectives
- c. Market feedback of Third Party business reputation and track record of their services rendered in the past; and
- d. Level of concentration of the outsourced arrangements with a single third party
- e. The environment of the state / country / region where the third party is located.

**5. Legally binding written contract**

AMSEC shall undertake proper care to ensure that the outsourcing contract between AMSEC & Third Party:



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- a. clearly defines what activities are going to be outsourced, including appropriate service and performance levels
  - b. provides for mutual rights, obligations and responsibilities of AMSEC and Third Party, including indemnity by the parties
  - c. provides for the liability of Third Party to AMSEC for unsatisfactory performance/other breach of the contract
  - d. provides for the continuous monitoring and assessment by AMSEC of Third Party 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 outsourcing and the right to intervene with appropriate measures to meet legal and regulatory obligations;
  - e. includes, where necessary, conditions of sub-contracting by the Outsourcer;
  - f. has unambiguous confidentiality clauses to ensure protection of proprietary and customer data during the tenure of the contract and also after the expiry of the contract;
  - g. specifies the responsibilities of Third Party with respect to the IT security and contingency plans, insurance cover, business continuity and disaster recovery plans, force majeure clause;
  - h. provides for preservation of the documents and data by Third Party;
  - i. provides for the mechanisms to resolve disputes arising from implementation of the outsourcing contract;
  - j. provides for termination of the contract, termination rights, transfer of information and exit strategies;
  - k. neither prevents nor impedes AMSEC from meeting its respective regulatory obligations, nor the regulator from exercising its regulatory powers; and
  - l. Provides for AMSEC to have the ability to inspect, access all books, records and information relevant to the outsourced activity with Third Party.
  - m. 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 third party. 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.



## 6. Contingency Plans

AMSEC & Third Party shall establish and maintain contingency plans, including a plan for disaster recovery and periodic testing of backup facilities.

- a) Specific contingency plans shall be separately developed for each outsourcing arrangement, as is done in individual business lines.
- b) AMSEC shall take appropriate steps to assess and address the potential consequence of a business disruption or other problems at the company's level and as well as the Third Party level.
- c) AMSEC shall consider and co-ordinate the contingency plans at both the levels.
- d) AMSEC shall 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. AMSEC shall seek to ensure that third party 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 by the Company to confirm the adequacy of the Third Party systems.

## 7. Confidentiality

**AMSEC** shall take appropriate steps to require that Third Party protect confidential information of both AMSEC and its customers from intentional or inadvertent disclosure to unauthorised persons. The Company shall

- take appropriate steps to protect its proprietary and confidential customer information and ensure that it is not misused or misappropriated.
- prevail upon Third Party to ensure that the employees of Third Party have limited access to the data handled
- ensure that the employees of the third party have access to the data only on a "need to know" basis and the Third Party shall have adequate checks and balances to ensure the same

If the outsourcer is providing similar services to multiple entities, the Company shall ensure that adequate care is taken by the outsourcer to build safeguards for data security and confidentiality.



**8. Disclaimer**

This Outsourcing Policy is prepared by AMSEC in terms of SEBI's Circular No. CIR/MIRSD/24/2011 dated 15th December, 2011 for internal circulation only.

The use of this Policy or any matter contained herein, in any manner, without the express written permission from AMSEC may lead to legal proceedings against the user at the sole discretion of AMSEC.

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