



SYKES & RAY EQUITIES™
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POLICY ON OUTSOURCING OF KYC: ACCEPTANCE, PROCESS, SENDING FOR STORAGE.

**(This is a policy document for guiding the operations of the organization.
This Document is for internal use and not for circulation.)**

Introduction:

Sykes & Ray Equities (I) Ltd (hereinafter referred to as "SREIL" or "Company") is a SEBI Registered Intermediary as a Stock Broker, Depository Participant, Mutual Fund Distributor and Portfolio Manager. Accordingly it is required that SREIL 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.

As per these guidelines, Outsourcing means 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. Many commercial benefits have been ascribed to outsourcing, the most common being reducing the organization's cost and at times for strategic reasons.

Accordingly, SREIL announces this Outsourcing Policy.

Scope:

The policy is to be applied by the Board of Directors, Senior Management and Employees of SREIL at the time of Outsourcing activities.

The key purposes of this policy are as follows –

- a) To establish a comprehensive outsourcing risk management programme to address the outsourced activities and the relationship with the third party.
- b) To conduct appropriate due diligence in selecting the third party and to ascertain the credibility and capability of the third party.
- c) To maintain confidentiality of the information that is outsourced.
- d) To ensure compliance with laws and regulations in force from time to time.

SREIL shall follow various principles for outsourcing as may be prescribed by SEBI in the captioned circular dated 15th December 2011.

A. Policy Statements:

A.1. *Choosing an outsourcer –*

While selecting an outsourcer, SREIL shall inter-alia take into account the following:

- Outsourcer's resources and capabilities
- Its financial soundness and capabilities to perform the work within fixed timelines
- Location of an outsourcer
- Quality of services provided to other customers
- Compatibility of the practices and systems of an outsourcer
- Outsourcer's business reputation and past track record.

A.2. Nature of Activities outsourced / to be outsourced –

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

- To receive KYC Documents e-KYCs from Head Office of SREIL or directly from branches, associates of SREIL or Submitted online.
- To check, audit the physical, e-KYC forms as per SEBI, exchange guidelines and prepare query list for each KYC audited.
- Inform clients, associates of the queries generated and follow-up for resolution of the same.
- To process compliant KYC (physical and e-KYCs) forms and do all needful acts such as data feeding, uploading of files, images etc on CDSL, stock exchanges, KRAs etc to open DP/TRADING or BOTH the accounts.
- To inform SRE and clients of the accounts opened.
- To complete all compliance requirements of UCC, KRA, CKYC,
- Sending by courier to the registered address the account opening letter to clients etc. and storing the acknowledgment of courier delivered.
- To store and preserve these KYC forms with all safety, security and in confidential manner till the forms are processed and sent to storage location.
- To dispatch forms to storage location with proper indexing, maintain records and share the same with SREIL.

However, the core business activities such as compliance functions, execution of orders and monitoring of trading activities of clients, dematerialization of securities, investment related activities shall not be outsourced. Regarding Know Your Client (KYC) requirements, SREIL shall comply with the provisions of SEBI {KYC (Know Your Client) Registration Agency} Regulations, 2011 and Guidelines issued thereunder from time to time.

A.3. Authorities approving the Activities –

The Board of Directors of the Company shall be responsible for approving 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 SREIL at intervals as it may deem fit.

A.4. Review of Policy and Assessing Outsourcing Risk –

In addition to the regular review and monitoring of outsourcing policy, the Management Committee shall have overall responsibility for ensuring that all the ongoing outsourcing decisions taken by the Company and the activities undertaken by the third party are in consonance with the outsourcing policy.

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, concentration and systematic risk.

B. Risk Management Programme:

B.1. *Evaluation of Third Party –*

As a part of comprehensive outsourcing risk management programme, the Management Committee shall assess the materiality of the outsourced activity based on the following factors:

- a) The impact of failure of third party to adequately perform the activity, on the financial, reputational and operational performance of the Company and on the investors / clients;
- b) Ability of the Company to cope up with the work, in case of non-performance or failure by third party by having suitable back-up arrangements;
- c) Regulatory status of third party including its fitness and probity status;
- d) 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.

B.2. *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 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.

B.3. *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.

B.4. *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 deem fit and proper.

C. Accountability of the Company:

- 1) SREIL 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.
- 2) 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.
- 3) The facilities / premises / 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.
- 4) Outsourcing arrangements shall not impair the ability of SEBI/Exchanges/Self Regulatory Organisations (SRO) or auditors to exercise its regulatory responsibilities such as supervision / inspection of the Company.

D. Due Diligence and Monitoring of Third Party:

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

The due diligence undertaken by the Company shall include assessment of:

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

E. Contracts and Agreements:

A formal contract between the Company and the outsourcer shall be entered to protect the interest of both the parties. All outsourcing arrangements shall be executed only by way of a clearly defined and legally binding written contract with each of the Service Provider.

Proper care shall be taken to ensure that the Outsourcing contract:

- 1) clearly defines what activities are going to be outsourced, including appropriate service and performance levels;
- 2) provides for mutual rights, obligations and responsibilities of the Company and the outsourcer, including indemnity;
- 3) provides for the liability of the outsourcer to the Company for unsatisfactory performance / other breach of the contract;
- 4) provides for the continuous monitoring and assessment by the Company of the outsourcer 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;
- 5) includes, where necessary, conditions of sub-contracting by the Outsourcer; i.e. the contract shall enable Company to maintain a similar control over the risks when the Outsourcer outsources to further third parties as in the original direct outsourcing;
- 6) 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;
- 7) specifies the responsibilities of the outsourcer with respect to the IT security and contingency plans, insurance cover, business continuity and disaster recovery plans, force majeure clause, etc.;
- 8) provides for preservation of the documents and data by outsourcer;
- 9) provides for the mechanisms to resolve disputes arising from implementation of the outsourcing contract;
- 10) provides for termination of the contract, termination rights, transfer of information and exit strategies;
- 11) 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 Service Provider. 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;

- 12) neither prevents nor impedes the Company from meeting its respective regulatory obligations, nor the regulator from exercising its regulatory powers; and
- 13) provides for the Company and /or the regulator or the persons authorized by it to have the ability to inspect, access all books, records and information relevant to the outsourced activity with the outsourcer.

F. Contingency Plans:

The Company and its outsourcer shall establish and maintain contingency plans, including a plan for disaster recovery and periodic testing of backup facilities. Specific contingency plans shall be separately developed for each outsourcing arrangement, as is done in individual business lines. Further:

- 1) The Company shall take appropriate steps to assess and address the potential consequence of a business disruption or other problems at the Company's level as well as at the outsourcer's level.
- 2) The Company shall consider and co-ordinate the contingency plans at both the levels.
- 3) 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. The Company shall, therefore, seek to ensure that the outsourcer maintains appropriate IT security and robust disaster recovery capabilities.
- 4) 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 outsourcer's systems.

G. Confidentiality:

The Company shall take appropriate steps to require that the outsourcer protects confidential information of both the Company and its customers from intentional or inadvertent disclosure to unauthorized persons. The Company shall take proper care to:

- 1) Protect its proprietary and confidential customer information and ensure that it is not misused or misappropriated.
- 2) Ensure that the employees of the outsourcer have limited access to the data handled and only on a "need to know" basis and the outsourcer shall have adequate checks and balances to ensure the same.

In cases where 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. In instances, where the Outsourcer acts as an outsourcing agent for multiple intermediaries, the Company shall take proper care and ensure that strong safeguards are put in place so that there is no co-mingling of information / documents, records and assets.

Circular Reference:

SEBI Circular - CIR/MIRSD/24/2011 Dated 15/12/2011 on Guidelines on Outsourcing of Activities by Stock Brokers.