

OUTSOURCED ACTIVITY POLICY

1. INTRODUCTION

Outsourcing refers to use of a third party, either within or outside the group to perform the activities associated with intermediation services. A third party may be used to perform one or more activities or one or more third parties may be used to perform different activities associated with the intermediation service. Such use may be for a specified period or on a continuing basis. In an extreme form, the third parties may be used to perform all the activities associated with the intermediation service, including legal and regulatory Compliances and Risk Management.

Securities Market intermediaries in many jurisdictions are increasingly resorting to outsourcing with a view to reduce costs, and at times, for strategic reasons. This benefits market in terms of better access and better expertise. However, since the third parties may not be subject to the regulatory discipline and the activities and, not the accountability can be outsourced, outsourcing raises a variety of concerns both for the regulator and the outsourcing Intermediaries. While it is not desirable to ban outsourcing completely for obvious reasons, the concerns need to be addressed and the outsourcing needs to be organized in an orderly manner. Hence TRADEWELL has framed a Policy for outsourcing of its Few Activities.

2. RISKS ASSOCIATED WITH OUTSOURCING

Risks attached to outsourcing are numerous. They can be grouped into three Categories: 1. Operational 2. Reputational and 3. Legal Risks

The operational risks arise because we lose direct control over the activities and the processes, procedures, systems and people engaged in these activities. Therefore, it fails to exercise due care and diligence if the activity / service fall short of the regulatory standards.

The reputational risks arise from failure by the third party to deliver as per regulatory standards which may invite regulatory actions.

The legal risks come from the failure to enforce the contractual obligations particularly when the contractual relationship is not redefined with every change in basket of activities outsourced or the way these are discharged.

- I. Seeking to outsource activities should have in place a comprehensive policy to guide the assessment of whether and how those activities can be appropriately outsourced. The board of directors or equivalent body representing the TradeWell Securities shall have the responsibility for the outsourcing policy and related overall responsibility for activities undertaken under that policy.
- II. Should establish a comprehensive outsourcing risk management programme to address the outsourced activities and the relationship with the third party.
- III. Should ensure that outsourcing arrangements neither diminish its ability to fulfil its obligations to customers and regulators, nor impede effective supervision by the regulators.
- IV. Should conduct appropriate due diligence in selecting the third party and in monitoring of its performance.
- V. Outsourcing relationships should be governed by written contracts / agreements that clearly describe all material aspects of the outsourcing arrangement, including the rights,

responsibilities and expectations of the parties to the contract, client confidentiality issues, termination procedures, etc.

- VI. And its third parties should establish and maintain contingency plans, including a plan for disaster recovery and periodic testing of backup facilities.
- VII. Should take appropriate steps to require that third party's protect confidential information of both TRADEWELL and its customers from intentional or inadvertent disclosure to unauthorised persons.
- VIII. Regulators should take into account outsourcing activities as an integral part of their ongoing assessment of the regulated entity. Regulators should assure themselves by appropriate means that any outsourcing arrangements do not hamper the ability of TRADEWELL to meet its regulatory requirements.
- IX. Regulators should be aware of the potential risks posed where the outsourced activities of multiple intermediaries are concentrated with a limited number of third parties.

3. ACTIVITIES THAT CAN BE OUTSOURCED BY TRADEWELL

- a. Scanning and storage of account opening forms
- b. Printing and despatch of welcome kits.

4. ACTIVITIES THAT SHOULD NOT BE OUTSOURCED BY TRADEWELL

Since TradeWell is a Stock Broker registered based on their strength outsourcing of key activities by them to unregistered third parties defeats the purpose of regulation. It is therefore felt that the key activities which are crucial to the intermediation service may be delivered by the TRADEWELL itself. The informal feedback indicates that the compliance with securities laws, investor grievance redressal and KYC must not be outsourced under any circumstance. Besides, the following activities ought not to be outsourced to third parties

- a. Creation of user id/login id, password generation for internet clients
- b. Order management
- c. Operation of trading terminals
- d. Operations & Monitoring of Bank A/c & DP A/c
- e. Pay in / pay out of funds and securities
- f. Generation & dispatch of contract notes, quarterly statement of accounts, daily margin statement and monitoring of the said activities.
- g. Maintenance & monitoring of client database & client financial information
- h. Surveillance function
- i. Allotment / surrender of trading terminals, opening & closing of branches
- j. Implementation of PMLA policies
- k. Risk Management system (which includes margins, trading limits, scrip / terminal enablement etc.
- l. Printing of contract notes