

POLICY ON OUTSOURCING OF ACTIVITIES

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CARE ESG RATINGS LIMITED

POLICY ON OUTSOURCING OF ACTIVITIES

I. OVERVIEW

This policy on Outsourcing of activities will provide guidance for conducting an assessment on the requirement of outsourcing activities of CARE ESG Ratings Limited ("**CARE ESG**") which are non-core in nature and can be appropriately Outsourced to Third Parties as per the applicable regulations and guidelines. CARE ESG while outsourcing such activities shall ensure that it does not Outsource its core business activities such as ESG Rating or such other activity permitted under the applicable regulations from time to time and compliance function to any Third Party.

This policy has been prepared in line with the principles for outsourcing issued by the Securities and Exchange Board of India ("**SEBI**") vide its master circular SEBI/HO/DDHS/POD2/P/CIR/2023/121 dated July 12, 2023.

II. DEFINITIONS

For the purposes of this policy, the terms below shall have the following meanings:

(1) Outsourcing

The use of one or more than one third party – either, within or outside the CARE group (referring to CARE ESG and its associates) - by CARE ESG to perform the activities associated with the ESG Ratings and other permitted services which CARE ESG offers.

(2) Third Party(ies)

The entity to which an activity is outsourced by CARE ESG.

III. GENERAL PRINCIPLES.

1. CARE ESG shall render at all times high standards of service and exercise due diligence and ensure proper care in its operations. It is possible that some of the non-core activity may be outsourced to any third party from time to time with a view to, among others, reduce costs, and for strategic reasons.
2. Principles for Outsourcing: There could be a variety of risks associated with outsourcing. These may include operational risk, reputational risk, legal risk, strategic risk, counter party risk, concentration risk and systemic risk. In order to address the concerns arising from the outsourcing of activities by CARE ESG, the principles mentioned in this policy have been formulated for governing its outsourcing activities.
3. Reporting to Financial Intelligence Unit (FIU): CARE ESG shall be responsible for reporting of any suspicious transactions / reports which come to its notice to FIU or any other competent authority in respect of activities carried out by the third parties with which it has any outsourcing arrangements.

If there is a doubt about whether a particular activity can be outsourced or not, the clarification regarding the same may be obtained from the compliance officer of CARE ESG.

Before a decision is made to outsource an activity, the following aspects need to be considered:

- a) evaluation of risk concentrations,
- b) limits on the acceptable overall level of outsourced activities and
- c) any risks arising from outsourcing multiple activities to the same entity.

IV. COMPREHENSIVE POLICY

CARE ESG has in place a comprehensive policy to guide the assessment of whether and how relevant activities can be appropriately outsourced. The Board of Directors of CARE ESG (hereinafter referred to as the "**the Board**") shall approve the policy and have the overall responsibility for activities undertaken under the policy.

A. Risk Management

1. CARE ESG shall have a mechanism to make an assessment of outsourcing risk related to outsourcing any non-core activity to any Third Party and its relationship 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:
 - a) The impact of failure of a third party to adequately perform the activity on the financial, reputational and operational performance of CARE ESG and on its clients/investors;
 - b) Ability of CARE ESG to cope up with the work, in case of non-performance or failure by a third party by having suitable back-up arrangements;
 - c) Regulatory status of the third party, including its fitness and probity status;
 - d) Situations involving conflict of interest between CARE ESG and the third party and the measures put in place by CARE ESG to address such potential conflicts.
2. While there shall not be any prohibition on a group entity / associates of CARE ESG to act as the Third Party, if outsourcing were to happen to such an entity, systems shall be put in place to establish that the transactions or outsourcing activity shall be on arm's length basis between CARE ESG 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 shall be made as part of the contractual agreement. It shall be kept in mind that the risk management practices expected to be adopted by CARE ESG while outsourcing to a related party or an associate would be identical to those followed while outsourcing to an unrelated party.
3. The records relating to all activities outsourced shall be preserved centrally so that the same is readily accessible for review by the Board and / or CARE ESG's 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 CARE ESG.
4. Regular reviews by internal or external auditors of the outsourcing policy, risk management system and other requirements of the SEBI, if any, shall be mandated by the Board wherever felt necessary. CARE ESG shall review the financial and operational capabilities of the third party in order to assess its ability to continue to meet the outsourced obligations.

B. Undiminished Ability to fulfil obligations

1. CARE ESG 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 CARE ESG in any manner. CARE ESG 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 the 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 CARE ESG. CARE ESG and the 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 / appropriate self-regulatory organization (SRO) or auditors to exercise its regulatory responsibilities such as supervision/ inspection of CARE ESG.

C. Appropriate Due Diligence and monitoring of its performance

1. CARE ESG shall conduct appropriate due diligence in selecting the Third Party and monitor its performance. While conducting due diligence and monitoring activity, CARE ESG shall exercise 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 relevant service effectively.
2. The due diligence undertaken by CARE ESG shall include assessment of:
 - a) third party's resources and capabilities, including financial soundness, to perform the outsourced work within the timelines fixed;
 - b) compatibility of the practices and systems of the third party with CARE ESG's requirements and objectives;
 - c) market feedback of the prospective third party's business reputation and track record of their services rendered in the past;
 - d) level of concentration of the outsourced arrangements with a single third party and
 - e) the environment of the foreign country, where the third party if any is located.

D. Written Contracts

1. Outsourcing relationships shall be governed by clearly defined and legally binding written contracts / agreements / terms and conditions (as deemed appropriate) (hereinafter referred to as "Contract") 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.
2. Care shall be taken to ensure that the outsourcing Contract:
 - a. clearly defines what activities are going to be outsourced, including appropriate service and performance levels;
 - b. provides for rights, obligations and responsibilities of CARE ESG and the third party, including indemnity by that third party in favour of CARE ESG;
 - c. provides for the liability of the third party to CARE ESG for unsatisfactory performance/other breach of the contract;
 - d. provides for the continuous monitoring and assessment by CARE ESG of the third party so that any necessary corrective measures can be taken up immediately, i.e., the contract shall enable CARE ESG 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. where necessary, conditions of sub-contracting by the third-party, i.e. the contract shall enable CARE ESG to maintain a similar control over the risks when a third party outsources to further third parties as in the original direct outsourcing;
- 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 as appropriate the responsibilities of the third party with respect to the IT security and contingency plans, insurance cover, business continuity and disaster recovery plans, force majeure clause, etc.;
- h. provides for preservation of the documents and data by the 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. Jurisdictions over the Contract;
- l. If applicable, address additional issues arising from country risks and potential obstacles in exercising oversight and management of the arrangements when CARE ESG 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;
- m. neither prevents nor impedes CARE ESG from meeting its respective regulatory obligations, nor the SEBI from exercising its regulatory powers; and
- n. provides for CARE ESG 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 third party.

E. Contingency Plans

1. CARE ESG and its third parties shall as appropriate establish and maintain contingency plans, including a plan for disaster recovery and periodic testing of backup facilities.
2. Specific contingency plans shall be separately developed for each outsourcing arrangement.
3. CARE ESG shall take 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 CARE ESG and the third party and contingency plans of CARE ESG in the event of non-performance by the third party.
4. To ensure business continuity, robust information technology security is a necessity. A breakdown in the IT capacity may impair the ability of CARE ESG to fulfil its obligations to other market participants/ clients/ regulators/ SEBI and may ultimately impact on its overall operational risk profile. CARE ESG shall, therefore, seek to ensure that the third party, if any, maintains appropriate IT security and disaster recovery capabilities.
5. Periodic tests of the critical security procedures and systems and review of the backup facilities shall be undertaken by CARE ESG to confirm the adequacy of the third party's systems.

F. Confidentiality Protection

1. CARE ESG shall take appropriate steps to require that third parties protect confidential information of both CARE ESG and its customers and ensure that it is not misused or misappropriated or disclosed to unauthorised persons.
2. CARE ESG shall prevail 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 shall have adequate checks and balances to ensure the same.
3. In cases where the third party is providing similar services to multiple entities, that third party should ensure that adequate care is taken by it to build safeguards for data security and confidentiality of the information of CARE ESG and its customers.

G. Concentration Risk

1. There could be potential risks posed where the outsourced activities of multiple intermediaries like CARE ESG are concentrated with a limited number of third parties.

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

V. APPLICATION OF OUTSOURCING POLICY WITH OTHER POLICIES AND PROCEDURES

The Outsourcing Policy is intended to be complementary to all other policies and procedures adopted by CARE ESG.

VI. POLICY REVIEW

In the wake of changing business environment, the Board shall mandate a review of this policy and shall have the responsibility for ensuring that all ongoing outsourcing decisions taken by CARE ESG and the activities undertaken by the third parties are in compliance with this Policy.

VII. APPROVING AUTHORITY

The respective functional head under whom the proposed outsourced activity is, was, or would have been performed shall serve as the Approving Authority for that outsourced activity. The Approving Authority shall be responsible for ensuring full compliance with the requirements of this Policy.

The approving authority shall consider a risk-based approach to engagements and examine risk under every potential transaction in light of (i) proportionality of risk associated in each transaction as not all engagements would carry the same level of risk, (ii) risk factors and responsibility: -

Risk	Responsible department
financial exposure from high value contracts, long term commitments	CFO of CARE ESG.
operational dependencies in case procured services are linked to obligations and dependencies on CARE ESG/Care group	Respective department head owner of the Project / service from CARE ESG/Care group
regulatory impact from transactions that come under the purview of regulatory bodies or are undertaken pursuant to any statutory or regulatory requirements and may require time bound closure	Compliance or Criteria team, if any, of CARE ESG.
data sensitivity where services procured or provided by CARE ESG involve handling of personal, financial, confidential or proprietary data	IT Head/ Infosec Head of Care ESG/Care group.
reputational risk arising from services that are public facing, or partnerships involving brand name of CARE ESG/Care group	Marcom / Project head of Care ESG/Care group.
policy compliance to ensure that all transactions are carried out in accordance with applicable policies and procedures of CARE ESG.	Compliance and HR as applicable of CARE ESG.

In case any of the above risks are identified, the same shall be flagged by the respective Approving Authority/Department Heads to the CEO of CARE ESG and/or MD & Group CEO of Care group.

Annexure

Standards to be followed when abiding by SEBI's Principles on Outsourcing

As per SEBI's outsourcing principles, CARE ESG shall not outsource its 'core' business activities and the compliance function to any Third Party. To abide by these principles, the below standards can be applied:

- a) For the purpose of determining whether the services qualify as a 'core' activity, CARE ESG shall consider the services undertaken by its ESG Ratings Department in accordance with the regulations of SEBI, IFSCA, or any other relevant regulator, and which constitute the principal business of the Company. Such core services shall not be outsourced.
- b) Any activities performed by the analytical team, or otherwise falling within the scope of an "analytical" role or function, shall be deemed "core" and shall not be outsourced. These activities may include, but are not limited to, the assignment or surveillance of ESG ratings, preparation of rating rationales or reports, analytical assessment of data for rating assignments, etc.
- c) Any activities that could influence the ESG Ratings assignment decision-making process shall be considered "core" and shall not be outsourced.
- d) Any activity that does not involve or pertain to the assignment of ESG ratings, and does not fall within the scope of an "analytical" role or function under the purview of SEBI, IFSCA, or any other relevant regulator, shall be classified as "non-core." These may include, but are not limited to, activities relating to business development, follow-up for sourcing data or other information, and similar support functions which are covered under appropriate inter company agreements on an arms length basis. All such arrangements shall not be treated as outsourcing.
- e) The compliance function of CARE ESG shall not be outsourced, in accordance with SEBI's principles on outsourcing applicable to ESG Rating Providers (ERPs).
- f) Activities falling within the purview of corporate functions, such as Business Development, Legal, Finance, Information Technology, Administration, Human Resources, Secretarial, and other similar functions, that are not involved in the delivery of core services offered by the Company to its clients and are not specifically addressed under the SEBI guidelines shall not fall within the scope of this Policy. In other words, such activities shall not be classified as "outsourcing," as they do not pertain to the core service delivery of CARE ESG.
- g) Arrangements with a third party for the provision of manpower to perform any activity under the supervision and control of CARE ESG's employees shall also fall outside the scope of this Policy.
- h) Any procurement of industry research scores, outlooks, reports, or subscriptions to third-party applications or platforms (including access provided through login credentials) that are used solely as inputs in the ESG rating assignment process by the analytical department of CARE ESG shall not be treated as "outsourcing."