

Outsourcing Policy

Details	
Primary owner	Compliance
Applies to	CRISIL ESG Ratings and Analytics Limited (CRISIL ESG Ratings)
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Review cycle of document	Annual

I. Overview

This document constitutes a policy framework, containing among other procedures and restrictions, which will govern all outsourcing activities carried out by CRISIL ESG Ratings & Analytics Limited (hereinafter referred to as CRISIL ESG Ratings).

This policy is consistent with the “Guidelines on Outsourcing of Activities by Intermediaries” issued by the Securities and Exchange Board of India (SEBI) vide their Master circular SEBI/HO/DDHS/POD2/P/CIR/2023/121 dated July 12, 2023 (Master Circular).

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 CRISIL group (referring to CRISIL Limited and its subsidiaries) - by CRISIL ESG Ratings to perform the activities associated with the ESG ratings services which CRISIL ESG Ratings offers.

2. Third Party

The entity to which an activity is outsourced by CRISIL ESG Ratings.

3. Regulator

Securities and Exchange Board of India (SEBI).

III. Policy

A. General principles

- CRISIL ESG Ratings shall render at all times high standards of service and exercise due diligence and ensure proper care in its operations. It is possible that outsourcing of certain activities may be resorted to from time to time with a view to, among others, reduce costs, and for strategic reasons.
- 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 CRISIL ESG Ratings the principles mentioned in this policy have been formulated for governing its outsourcing activities.
- Activities that shall not be Outsourced – CRISIL ESG Ratings will not outsource its core activities such as assignment of ESG ratings, surveillance of assigned ESG ratings etc. and compliance functions. For further details, please refer to Annexure 1 to this document.
- Reporting To Financial Intelligence Unit (FIU) – CRISIL ESG Ratings 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.

B. Comprehensive policy

- This policy provides a comprehensive guide for the assessment of whether and how relevant activities can be appropriately outsourced. The Board of Directors of CRISIL ESG Ratings {hereinafter referred to as the “the Board”} shall approve the policy and have the responsibility for the policy and related overall responsibility for activities undertaken under the policy.

Only the activities or the nature of activities that are not a core part of assigning ESG rating, can be outsourced.

- An activity shall not be outsourced if it would impair the supervisory authority’s right to assess, or its ability to carry out supervisory activities at CRISIL ESG Ratings

- Activities as mentioned in Annexure 1 of this policy cannot be outsourced.
- If there is a doubt about whether a particular activity can be outsourced or not, clarification regarding the same may be obtained from the Chief Ratings Officer (CRO) / equivalent or from the Compliance.
- Activities which do not come under the definition of “outsourcing” as defined in this policy, may also be delegated to third parties.
- Activities which are to be outsourced may be done so only after the written approval of the CRO and Compliance Officer.
- Before a decision is made to outsource an activity, the following aspects need to be considered - evaluation of risk concentrations, limits on the acceptable overall level of outsourced activities and risks arising from outsourcing multiple activities to the same entity.
- This policy is subject to regular review by the Board. The Board shall also have overall responsibility for ensuring that all ongoing outsourcing decisions taken by CRISIL ESG Ratings, and the activities undertaken by the relevant third-party, are in keeping with this policy. This may be facilitated by an annual internal audit on the formulation and implementation of this policy and a presentation of the audit report to the Board.

C. Risk management

- CRISIL ESG Ratings shall have a mechanism to make an assessment of outsourcing risk it is subjected to. This will depend on factors like the scope and materiality of the outsourced activity. The factors that could help in considering materiality in a risk management program include:
 - The impact of failure of a third party to adequately perform the activity on the financial, reputational and operational performance of CRISIL ESG Ratings and on our clients / investors;
 - Ability of CRISIL ESG Ratings 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 conflict of interest between CRISIL ESG Ratings and the third party and the measures put in place by CRISIL ESG Ratings to address such potential conflicts.
- While there shall not be any prohibition on a group entity / associate of CRISIL ESG Ratings to act as the third party, if outsourcing were to happen to such an entity, systems shall be put in place to have an arm’s length distance between CRISIL ESG Ratings 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 CRISIL ESG Ratings while outsourcing to a related party or an associate would be identical to those followed while outsourcing to an unrelated party.
- 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 CRISIL ESG Ratings s senior management, as and when needed. These records should be preserved for a period of at least five years after the cessation of the respective outsourcing arrangements. Such records shall be regularly updated and may also form part of the corporate governance review by the management of CRISIL ESG Ratings.
- Regular reviews by internal or external auditors of the outsourcing policy, risk management system and other requirements of the regulator, if any, shall be mandated by the Board wherever felt necessary. CRISIL ESG Ratings shall review the financial and operational capabilities of the third party in order to assess its ability to continue to meet the outsourced obligations.

D. Undiminished ability to fulfil obligations

- CRISIL ESG Ratings 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.
- The facilities / premises / data that are involved in carrying out the outsourced activity by the third party shall be deemed to be those of CRISIL ESG Ratings by the Regulator. CRISIL ESG Ratings and the 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 / appropriate self-regulatory organization (SRO) or auditors to exercise its regulatory responsibilities such as supervision / inspection of CRISIL ESG Ratings.

E. Appropriate due diligence to be conducted

- CRISIL ESG Ratings shall conduct appropriate due diligence in selecting the third party and in the monitoring of its performance.
- It is important that CRISIL ESG Ratings 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 relevant service effectively.
- The due diligence undertaken by CRISIL ESG Ratings shall include assessment of:
 - third party’s resources and capabilities, including financial soundness, to perform the outsourced work within the timelines fixed;
 - compatibility of the practices and systems of the third party with CRISIL ESG Ratings’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.
- CRISIL ESG Ratings will annually review each outsourced important operational function to assess the third party’s current performance of – and continued ability to appropriately perform – the Outsourced Activity so as not to risk the quality, integrity, or continuity of the services offered by CRISIL ESG Ratings.

F. Existence of written contracts

- Outsourcing relationships shall be governed by 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, the nature and detail of which shall be appropriate to the materiality of the outsourced activity in relation to the ongoing business of CRISIL ESG Ratings.
- Care shall be taken to ensure that the outsourcing contract:
 - clearly defines what activities are going to be outsourced, including appropriate service and performance levels;
 - provides for rights, obligations and responsibilities of CRISIL ESG Ratings and the third party, including indemnity by that third party in favour of CRISIL ESG Ratings;
 - provides for the liability of the third party to CRISIL ESG Ratings for unsatisfactory performance/other breach of the contract
 - provides for the continuous monitoring and assessment by CRISIL ESG Ratings of the third party so that any necessary corrective measures can be taken up immediately, i.e., the contract shall enable CRISIL ESG Ratings 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 contract shall enable CRISIL ESG Ratings 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 contract and also after the expiry of the contract;
 - 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.;
 - provides for preservation of the documents and data by the third party ;
 - provides for the mechanisms to resolve disputes arising from implementation of the outsourcing contract;
 - provides for termination of the contract, termination rights, transfer of information and exit strategies;
 - neither prevents nor impedes CRISIL ESG Ratings from meeting its respective regulatory obligations, nor the regulator from exercising its regulatory powers; and

- provides for CRISIL ESG Ratings 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.

G. Contingency plans

- CRISIL ESG Ratings and its third parties shall as appropriate 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.
- CRISIL ESG Ratings 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 CRISIL ESG Ratings and the third party; and contingency plans of CRISIL ESG Ratings in the event of non-performance by the third party.
- To ensure business continuity, robust information technology security is a necessity. A breakdown in the IT capacity may impair the ability of CRISIL ESG Ratings to fulfil its obligations to other market participants/clients/regulators and could undermine the privacy interests of its customers, harm CRISIL ESG Rating's reputation, and may ultimately impact on its overall operational risk profile. CRISIL ESG Ratings shall, therefore, seek to ensure that the third party maintains appropriate IT security and disaster recovery capabilities.
- Periodic tests of the critical security procedures and systems and review of the backup facilities shall be undertaken by CRISIL ESG Ratings to confirm the adequacy of the third party's systems.

H. Confidentiality protection

- CRISIL ESG Ratings shall take appropriate steps to require that third parties protect confidential information of both itself and its customers from intentional or inadvertent disclosure to unauthorized persons.
- CRISIL ESG Ratings shall take appropriate steps to protect proprietary and confidential information of itself / its customers and ensure that it is not misused or misappropriated.
- CRISIL ESG Ratings shall prevail upon the third party to ensure that the employees of the third party have limited access to the data handled and that too only on a "need to know" basis and the third party shall have adequate checks and balances to ensure the same.
- 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 CRISIL ESG Ratings and its customers.

I. Concentration risk

- There could be potential risks posed where the outsourced activities of multiple intermediaries like CRISIL ESG Ratings are concentrated with a limited number of third parties.
- In instances, where the third-party acts as an outsourcing agent for multiple intermediaries like CRISIL ESG Ratings it is the duty of the third party and CRISIL ESG Ratings to ensure that strong safeguards are put in place so that there is no co-mingling of information /documents, records and assets.

IV 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 CRISIL ESG Ratings

CRISIL ESG Ratings's personnel who have questions on interpretation or application of this policy should contact the CRO / or Compliance who will coordinate on the appropriate response. Any exceptions to this policy must be given by the CRO of CRISIL ESG Ratings and must be formally documented.

Annexure 1 – Criteria to be used while adhering to the SEBI guidelines on Outsourcing

- CRISIL ESG Ratings will not outsource core activities such as Assignment and Review of ESG Ratings.
- CRISIL ESG Ratings will also not outsource its compliance function.
- Activities which are not “core” may involve the engagement of one or more than one third party – either, within or outside the CRISIL group (referring to CRISIL Limited and its subsidiaries) - by CRISIL ESG Ratings to perform the activities associated with services which CRISIL ESG Ratings offers.
- Activities in which services are performed by a third party not on a continuous basis but as a one off activity would not be considered as “outsourcing”.
- Activities coming under the purview of the corporate groups (Finance, IT, Admin, HR, etc.) would not be classified as “Outsourcing” as they are not involved in delivering the services offered by CRISIL ESG Ratings to its clients.
- Arrangements with entities only for the purposes of hiring associates to perform a part of an activity where such associates are fully supervised by CRISIL ESG Ratings employees will not be classified as “outsourcing”.

Review History

Version No	Date of review	Effective date
V.01.2024	August 12, 2024	August 12, 2024

About CRISIL ESG Ratings & Analytics Limited (a wholly owned subsidiary of CRISIL Ratings Limited)

CRISIL ESG Ratings & Analytics Limited. (CRISIL ESG Ratings) is a Securities and Exchange Board of India (SEBI)-registered 'Category 1' ESG rating provider. It is a wholly owned subsidiary of CRISIL Ratings Limited ('CRISIL Ratings', a SEBI-registered credit rating agency). CRISIL Ratings Limited is a wholly owned subsidiary of CRISIL Limited, an S&P Global company).

CRISIL Limited had launched its ESG scoring business in June 2021 with the objective of providing services to clients using a robust India-specific framework on the environmental (E), social (S) and governance (G) aspects. Pursuant to the receipt of the ERP registration, CRISIL Limited has transferred its ESG scoring business to CRISIL ESG Ratings with effect from May 03, 2024.

CRISIL ESG Ratings serves institutional and retail investors, asset managers, lenders and corporates (including issuers) using its proprietary ESG rating methodology to assess companies across sectors.

For more information visit www.crisilesg.com

About CRISIL Ratings Limited (A subsidiary of CRISIL Limited, an S&P Global Company)

CRISIL Ratings pioneered the concept of credit rating in India in 1987. With a tradition of independence, analytical rigour and innovation, it has set the standards in the credit rating business. CRISIL Ratings has rated over 33,000 large and mid-scale corporates and financial institutions and has also instituted several innovations in India in the rating business, including ratings for municipal bonds, partially guaranteed instruments and infrastructure investment trusts (InvITs).

CRISIL Ratings is a wholly-owned subsidiary of CRISIL Limited ('CRISIL'). CRISIL Ratings is registered in India as a credit rating agency with the SEBI.

For more information, visit www.crisilratings.com

About CRISIL Limited

CRISIL Limited ("CRISIL") is a leading, agile and innovative global analytics company driven by its mission of making markets function better.

CRISIL, along with its subsidiaries, is India's foremost provider of ratings, data, research, analytics and solutions with a strong track record of growth, culture of innovation, and global footprint.

It has delivered independent opinions, actionable insights, and efficient solutions to over 100,000 customers through businesses that operate from India, the United States (US), the United Kingdom (UK), Argentina, Poland, China, Colombia, Hong Kong, Singapore, Australia, Switzerland, Japan and the UAE.

It is majority owned by S&P Global Inc, a leading provider of transparent and independent ratings, benchmarks, analytics and data to the capital and commodity markets worldwide.

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