Outsourcing of Activities Policy

1. Introduction and Objective

This Policy provides a framework for evaluating whether certain non-core activities including compliance function of ACER may be outsourced to third-party service providers. Outsourcing decisions shall be guided by the principle that only activities which are ancillary in nature and do not form part of ACER's core business functions may be considered for Outsourcing. Further, ACER shall ensure that any outsourcing arrangement:

- Does not compromise its ability to meet obligations towards clients and regulators.
- Does not hinder or weaken the effectiveness of regulatory oversight.

All outsourcing engagements must be structured to preserve accountability, transparency, and compliance with applicable laws and supervisory requirements. This Policy incorporates the principles outlined in the Securities and Exchange Board of India (Credit Rating Agencies, Regulations, 1999, and Master Circular dated July 11, 2025. This Policy ensures that all outsourcing decisions are made with due diligence, risk assessment, and oversight, promoting a culture of accountability and resilience.

2. Definitions

1. **"Outsourcing"** means the use of a third party (either an affiliated entity within a corporate group or any external entity) by the Company to perform activities related to its non-core activities.
2. **"Sub-contractor"** refers to those providing material / significant IT services and other services to the service provider.
3. **"Third Party"** refers to any external entity or service provider engaged by ACER to perform outsourced activities that are non-core in nature.

3. Scope and Applicability

This policy shall cover activities or the nature of activities that can be outsourced, the authorities who can approve outsourcing of such activities, and the selection of Third Party to whom it can be outsourced. ACER shall conduct periodic reviews of its Outsourcing Policy to ensure continued relevance in light of evolving business needs and regulatory requirements. Every outsourcing decision taken by ACER is consistent with the principles and requirements set out in this Policy.

ACER to evaluate the need for outsourcing of activities based on a comprehensive assessment of the attendant benefits, risks, and the availability of adequate processes to manage such risks. For this purpose, the CRA shall, inter alia, consider the following:

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(i) The need for outsourcing, having regard to the materiality and criticality of the activities proposed to be outsourced.
(ii) The objectives, expectations, and intended outcomes from the outsourcing arrangement.
(iii) Key success factors, including cost–benefit analysis, efficiency gains, scalability, and impact on service quality and regulatory compliance.

The Policy governs outsourcing decisions across ACER's operations, including rating support, ESG assessments, business development, and administrative functions.

4. Activities that Cannot be Outsourced

ACER will not outsource core business activities and compliance functions.

5. Principles of Outsourcing and Risk Management

ACER adopts a holistic approach to outsourcing, which covers:

a) Accountability and Regulatory Access

1. ACER remains fully liable for outsourced activities as if performed in-house.
2. Outsourcing shall not affect investor rights; ACER is liable for losses and grievance redressal due to third-party failure.
3. Facilities/premises/data used by third parties are deemed ACER's for regulatory access.
4. ACER, SEBI/RBI, or authorised persons have unrestricted access to books, records, and information.

b) Risk Management Framework

ACER to implement a risk assessment mechanism on the following major parameters depending upon scope and materiality. of the outsourced activity, etc. The factors that could help in considering materiality in a risk management programme include:

1. Impact of Third-Party failure on financial/reputational/operational performance of the ACER and its investors/clients.
2. ACER's Ability to cope up with the work, in case of non-performance or failure by a Third Party by having suitable back-up arrangements.
3. Third-party regulatory status, fitness, and probity.
4. Conflict of interest mitigation measures+ Reputational Risk measures

While there shall not be any prohibition on a group entity / associate of the ACER to act as the third party, systems shall be put in place to have an arm's length distance between the ACER and the group entity / associate 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 by ACER as part of the contractual agreement. It shall be kept in mind that the risk

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management practices expected to be adopted by the ACER while outsourcing to a related party or an associate would be identical to those followed while outsourcing to an unrelated party.

ACER shall maintain a centralised and dynamic Outsourcing Inventory Register, overseen by the Compliance and Risk Management vertical.
Periodic reviews by internal/external auditors are mandated.

All records relating to outsourced activities shall be centrally maintained, regularly updated, and readily accessible for review by the Board and senior management of ACER. These records may also be incorporated into the corporate governance review.

c) Due Diligence

ACER shall conduct appropriate due diligence in selecting the third party, which include:

1. Exercise due care, diligence and skills in selecting Third Parties, to ensure that the third party has the ability and capacity to undertake the provision of the service effectively.
2. Resources/capabilities including financial soundness to perform the outsourcing work within the timelines agreed between the Parties.
3. System compatibility with ACER's objectives.
4. Business reputation/track record of their services rendered in the past
5. Concentration risks with single providers.
6. Environment of the foreign country where the Third Party is located and foreign environment risks for offshore outsourcing
7. Compliance history, complaints, and potential or ongoing litigation.
8. Conflict of interest, if any.

d) Agreement with the Third Party

ACER will enter into written contracts which clearly describe all material aspects of the outsourcing arrangement including but not limited to: -

1. Nature and Scope of work, details of activities, and performance levels
2. Mutual rights/obligations/responsibilities of the parties including indemnities.
3. Liability of the third party for unsatisfactory performance/other breach of the contract
4. Monitoring/assessment provisions.
5. Appropriate level of control over the outsourcing and the right to intervene with appropriate measures to meet legal and regulatory obligations
6. Sub-contracting conditions.
7. Confidentiality clauses to ensure protection of proprietary and customer data during the tenure of the contract and also after the expiry of the contract.
8. Third party responsibility for IT security, contingency plan, insurance cover, business continuity and disaster recovery plans, force majeure clause etc. preservation of the documents and data by Third Party
9. Dispute Resolution mechanism.
10. Termination of the contract, termination rights, transfer of information and exit strategies

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11. Choice-of-law for foreign providers.
12. Inspection/audit rights.
13. Disaster Recovery/BCR

e) Contingency and Business Continuity

ACER to ensure that all outsourcing arrangements are supported by adequate business continuity and disaster recovery (BCP/DR) frameworks, commensurate with the nature, scale, and criticality of the outsourced activity.

ACER shall develop specific contingency plans for each outsourcing arrangement, consistent with practices across business lines. It shall assess and address potential consequences of business disruptions or failures at the Third-Party level, including:

- Contingency plans maintained by the third party.
- Coordination of contingency plans between ACER and the third party.
- ACER's own contingency measures in the event of third-party non-performance.

To ensure business continuity, ACER shall require third parties to maintain robust IT security and disaster recovery capabilities. Any breakdown in IT capacity may impair ACER's obligations to market participants, regulators, and clients, compromise customer privacy, damage reputation, and increase operational risk.

ACER shall periodically test critical security procedures and systems, and review backup facilities, to confirm the adequacy and resilience of third-party arrangements.

f) Confidentiality

1. ACER to take appropriate steps to protect its proprietary and confidential customer information and ensure that it is not misused or misappropriated.
2. ACER will 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 that the third party has adequate checks and balances to ensure the same.
3. In cases where the third party is providing similar services to multiple entities, ACER will ensure that adequate care is taken by the third party to build safeguards for data security and confidentiality.
4. The service provider shall promptly notify ACER of any data breach, security incident, or unauthorized access to confidential information.
5. Confidentiality of data shall be maintained during exit, transition, or business continuity/disaster recovery scenarios.
6. Contractual obligations shall ensure that confidentiality requirements survive termination of the outsourcing arrangement and are enforceable against the service provider.

6. Redressal of Grievances Related to Outsourced Services

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ACER ensures proper processes for grievance redressal, ensuring timely resolution to be monitored by the Chief Compliance Officer.

Grievance Redressal: ACER will maintain a grievance redressal mechanism for outsourcing activities ensuring aggrieved persons may directly approach the company for resolution. Grievances will be acknowledged promptly, will be investigated if warranted, and resolved efficiently fostering trust and compliance. ACER is fully liable for reasonable losses from third-party failures while handling complaints arising out of outsourced activities.

7. Exit Policy Provisions for Third-Party Service Providers

ACER to ensure that outsourcing arrangements include clear, enforceable exit provisions to mitigate operational, compliance, and reputational risks.

A. Common Exit Provisions

1. Minimum notice period (30–90 days, based on criticality)
2. Mandatory knowledge transfer and handover support
3. Return or secure destruction of data, records, and intellectual property on mutual consent.
4. Continuity support during transition to alternate provider or in-house team
5. Confidentiality and data protection obligations surviving termination
6. Right to audit exit compliance
7. Step-in rights allowing ACER or nominee to temporarily assume control
8. Financial disincentives for abrupt or unplanned exits
9. Prohibition on deletion, alteration, access revocation, or modification of data during the exit/transition period unless approved by ACER or required by the regulator
10. Extension of exit obligations to all subcontractors and group entities of the service provider
11. Retention and continued access to system logs, audit trails, and incident records post-exit for regulatory or audit purposes

8. Termination Rights

In the event of termination of an outsourcing arrangement, where the service provider has direct interaction with ACER's clients or stakeholders, ACER shall take appropriate steps to publicly communicate such termination to ensure that clients and stakeholders discontinue dealing with the concerned service provider in relation to ACER's activities.

9. Offshore or Cross-Border Outsourcing

ACER shall, in principle, enter into outsourcing arrangements only with service providers operating in jurisdictions that recognise and enforce confidentiality, data protection, and contractual obligations.

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Where ACER engages a service provider located outside India, it shall:

(i) Continuously assess and monitor the political, legal, economic, and regulatory environment of the host jurisdiction and evaluate country-specific risks, including the impact on data security, service continuity, and regulatory compliance, supported by appropriate contingency and exit plans.
(ii) Clearly specify the governing law and jurisdiction applicable to the outsourcing arrangement.
(iii) Ensure uninterrupted access to all data, records, systems, and documents for ACER and the concerned regulator, including in situations such as insolvency, resolution, or liquidation of the service provider.
(iv) Retain the right of ACER and the concerned regulator to access, audit, inspect, or obtain information from the foreign service provider and its sub-contractors, as required.

10. Inventory Management of Outsourced Activities

Inventory Classification

Each outsourced activity shall be recorded with the following details:

i. Name of service provider
ii. Description of service + SLA Agreement
iii. Classification: Material / Non-material
iv. Regulatory relevance (rating process impact or not)
v. Data sensitivity (confidential/personal / public)
vi. Contract start and expiry dates
vii. Sub-outsourcing (if any)

Materiality Classification

Activities shall be classified as material if they:

1. Directly impact the rating process, methodologies, or analytical independence
2. Involve access to confidential issuer or rating data
3. Affect business continuity, IT security, or regulatory compliance

The inventory shall be reviewed at a periodic interval and upon any major outsourcing change.

11. Response Mechanism for Non-Cooperation by Service Providers

ACER shall adopt a structured escalation and response mechanism in cases of non-cooperation, breach, or underperformance by outsourced service providers and will be part of the Service Level Agreement (SLA).

1. Escalation Framework
   a. Initial Engagement – Formal communication seeking clarification or corrective action
   b. Remediation Plan – Time-bound corrective action plan agreed with the service provider to restore services as per SLA.
   c. Management Escalation – Escalation to senior management of both parties

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d. Contractual Remedies – Invocation of penalty clauses, service credits, or partial suspension.

2. Severe or Persistent Non-Cooperation
   a. Immediate termination for cause
   b. Activation of exit and transition arrangements
   c. Engagement of an alternate service provider or in-house takeover
   d. Reporting to regulators where non-cooperation affects regulatory compliance
   e. Legal action, if required, to protect ACER's interests

12. Documentation and Oversight

All instances of non-cooperation and actions taken shall be documented and reported to senior management and the Board / Risk Committee, as applicable.

13. Monitoring, Review, and Reporting

ACER to establish monitoring mechanisms:

1. Continuous Assessment: Regular performance reviews of third parties.
2. Internal Audits: Annual audits of outsourcing arrangements.

Reporting to Board: Half-yearly reports on risks, incidents, and compliance

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