

EXTRACTS OF THE AGENDA OF THE 90TH MEETING OF THE BOARD OF DIRECTORS OF NATIONAL SECURITIES DEPOSITORY LIMITED HELD ON TUESDAY, MAY 14, 2024 AT 02.00 P.M. AT BOARD ROOM, 5TH FLOOR, TRADE WORLD, 'A' WING, KAMALA MILLS COMPOUND, SENAPATI BAPAT MARG, LOWER PAREL, MUMBAI - 400013

➤ **Circular Resolution dated April 12, 2024 approved on April 15, 2024 - To approve amendment to Business Rules for revision in networth computation format**

SEBI (Depositories & Participations) Regulations 2018 has prescribed the minimum networth requirements for Depository Participants (DPs) depending upon the categories in which they are registered viz. Stock Broker; Registrar and Transfer Agent, Non-Banking Finance Company etc. For ascertaining the networth amount of the DPs to whom the networth criteria is applicable, networth computation methodology and the format of the networth certificate is laid down by Depositories in the NSDL Business Rules. The networth certificate in the format prescribed by NSDL is submitted by DPs, duly certified by a Chartered Accountant based on the annual audited accounts of the DPs is submitted by DPs to Depositories by October 31, every year. In case of DPs registered under the category of Banks including Foreign Bank, submit the networth certificate in the format in which they submit to their respective regulatory authority.

SEBI vide Notification dated February 23, 2022, has amended SEBI (Depositories & Participations) Regulations 2018 relating to networth requirement for stockbrokers registered as DP. As per said notification, stock brokers who are registered as DP shall have minimum networth requirement of Rs. Three Crore (earlier requirement was Rs. 50 lakhs) by February 23, 2023 and Rs. Five Crore by February 23, 2024. The SEBI (Depositories & Participations) Regulations 2018 has also undergone change, whereby one of the requirement of threshold limits for holding custody value upto 100 times of networth by the stock broker DPs where networth is below 10 crores, has also been done away with.

In view of the above, a review has been undertaken of the networth certificate computation method and existing formats. For this purpose, networth computation as applicable to Depositories under the SEBI D&P Regulations; the networth computation as applicable to Registrar and Transfer Agents under the SEBI Registrar and Transfer Agent Regulations and networth computation as applicable to Portfolio manager was compared with networth computation prescribed by Depositories for its DPs. Upon review, it was observed that none of the above-mentioned SEBI Regulations prescribed

networth computation methodology considers deduction of statutory contingent liabilities.

In view of the above and for the purpose of standardization and ease of doing business, it is proposed to amend the networth computation prescribed by both the Depositories for DPs to whom networth criteria is applicable such as Stock Broker; Registrar and Transfer Agent, Non-Banking Finance Company by removing the requirement of deduction of 50% of the contingent liability. As both the Depositories follow uniform networth certificate format, proposal has been shared with other Depository also for their comments/ concurrence and same is awaited.

The Regulatory Oversight Committee approved the circular resolution dated April 10 2024 on April 12, 2024 and recommended to approve the amendments in the networth computation prescribed by both the Depositories for DPs as mentioned in Form 1 (Annexure L) to the Board. After the Board approval, the same is required to be submitted to SEBI.

The Board is requested to review the aforesaid proposal.

➤ **Amendment to Bye Laws for incorporating timelines for submission of networth certificate to Depository**

As per NSDL Bye law 10.2.1, all DPs are required to furnish every year, a copy of its audited financial statements by October 31 every year. Further, as per Bye Law 6.3.6 (i), Participants are required to also submit the net worth certificate duly certified by a chartered accountant basis the annual audited accounts of participant.

In this context, SEBI vide letter dated March 20, 2024 has advised both the Depositories, to amend the Bye-Laws / Business Rules, to insert the timelines for submission of Networth certificate. Accordingly, we are proposing that DPs shall submit the Networth certificate in accordance with the submission timelines mentioned for audited financial statements i.e. October 31 every year.

In view of the above, following is proposed:

- a. To make the amendments to provision of Bye Laws 10.2.1.
- b. Once approved, amendment to Bye Laws shall be submitted to SEBI for approval.

The Board is requested to approve the amendments to the Bye Laws 10.2.1 and accord its consent for onward submission to SEBI.

➤ **New penalty head and revision of penalty levied on Depository Participants (DPs) for non-compliances**

The Regulatory Oversight Committee in its meeting held on May 22, 2023 and the Board in its meeting held on May 23, 2023 approved the proposal for amendment to NSDL Business Rules with respect to introducing new penalty of Rs. 5000/- per occasion for non-compliances by Depository Participants regarding assessing the eligibility of Beneficial Owners for conversion of eligible demat accounts into Basic Service Demat Account (BSDA) as per SEBI/ NSDL guidelines. The proposed penalty was mutually agreed between both the Depositories.

The above proposal when submitted to SEBI was returned advising that the penalty amount of Rs. 5000/- per occasion as proposed was not enough to deter any DP from continuing with the practice of not converting eligible BOs to BSDA and advised CDSL to reassess the proposed penalty amount in joint discussion with NSDL.

The new penalty proposal was approved through circular resolution by the Committee on October 17, 2023 and the Board on October 18, 2023 and submitted to SEBI vide letter dated October 30, 2023.

In response, SEBI vide letter dated January 08, 2024 advised to make further changes as mentioned below:

- There should be no upper cap on the penalty to be levied on DPs', if non-conversion is observed for multiple instances.
- A slab can be introduced for DPs to ensure incremental penalty beyond a certain threshold of non-conversion of eligible accounts to BSDA account and can be referred to member committee beyond a certain threshold.

Based on the suggestion provided by SEBI, both the Depositories deliberated and have agreed to the penalty framework on March 27, 2024.

In view of the above, considering the changes advised by SEBI and after further deliberations and discussions, both the depositories have agreed upon the revised proposal for the aforesaid non compliance, as follows:

| Sr. No. | Nature of non-compliances | Earlier Proposed penalty amount / penal action | Revised penalty amount / penal action) |
|---------|---|--|---|
| 1. | Demat accounts not converted into BSDA, after assessing the eligibility at the end of the current billing cycle as per respective depository / SEBI guidelines. | Rs. 500/- per account, with a maximum cap of Rs. 25,000/-. If such deviation is observed in two consecutive inspections, penalty would be Rs.1,000/- per account, with a maximum cap of Rs. 50,000/-. If such deviation is observed in three consecutive inspections, matter would be referred to the Member Committee for further action, if any. | Rs. 500/- per account. Rs. 1000/- per account in case deviation observed in more than 50 demat accounts. If the total penalty amount exceeds Rs. 500000, the matter would be referred to the Member Committee for further action. If such deviation is observed in two consecutive inspections, penalty would be Rs.1,000/- per account. Rs.2000/- per account in case deviation observed in more than 50 demat accounts. If the total penalty amount exceeds Rs. 500000, the matter would be referred to the Member Committee for further action. If such deviation is observed in three consecutive inspections, matter would be referred to the Member Committee for further action, if any. |

Additional changes proposed in the penalty structure of Depository Participants:

While both the Depositories were deliberating on the penalty framework for BSDA, a review was also done for changes required if any in the penalty structure due to various reforms/changes brought by SEBI/NSDL.

Upon review, changes are proposed in the following provisions of Chapter 18 of NSDL Business Rules:

| Sr. No. | Existing Provisions | Proposed change | Rational for change |
|-------------|--|--|--|
| 18.1.1 (29) | Client Grievances (except disputes/ court cases) not redressed within 30 days. | Client Grievances (except disputes/ court cases) not redressed within 21days. | As per amended regulation 36(2)(f) of SEBI (D&P) Regulations, 2018, the timelines have been revised from thirty days to twenty-one calendar days for redressal of investor grievances hence word '30' is replaced with '21'. |
| 18.1.1 (36) | Anti Money Laundering (AML) policy not framed as required under PMLA and not intimated to FIU-IND. | Anti Money Laundering (AML) policy not framed as required under PMLA. | As per prevailing SEBI Master Circular no. SEBI/HO/MIRSD/MIRSD-SEC5/P/CIR/2023/022 dated February 03, 2023, there is no requirement of intimating the AML policy to FIU-IND, hence, it is proposed to reword penalty head by deleting the words ' <i>and not intimated to FIU-IND</i> '. |
| 18.1.4 | If the total monetary penalty levied on a particular Participant in last three years exceed Rs. 1,00,000 the matter would be referred to Member Committee. | If the total monetary penalty levied on a particular Participant in last three years exceed Rs.1,00,000 the matter would be referred to Member Committee. Provided further that, this rule will not apply to the penalties levied for non-compliance mentioned at Rule 18.1.1 (Sr. no.____). | Currently all the penalties are imposed as per the SEBI TOR under the approval of Member Committee. Considering the penalty framework proposed for new penalty head with respect to non-conversion of eligible demat account into BSDA, a proviso is added to consider penalties imposed exceeding Rs.5,00,000 under this penalty head |

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|--|--|--|---|
| | | | separately for referral of cases to Member Committee for any further actions. |
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Once approved, the above amendment to Business Rule 18.1. shall be submitted to SEBI for approval.

The Board on recommendation of Regulatory Oversight Committee is requested to review and approve the above.

➤ **Risk Based Inspection Policy for RTAs and Issuer's**

NSDL conducts inspections of its Registrar and Transfer Agents (RTAs) and Issuer's having direct connectivity with NSDL in-house registry division once in a year, covering both depository operations and system related areas. The scope of the inspection is limited to depository operations of RTAs. The changing regulatory environment, business dynamics and increased operating risks have necessitated the need for better supervision of RTAs and Issuer's. Therefore, a new paradigm is proposed to be considered to bring greater effectiveness and meaningful outcomes from these inspections by adopting a Risk Based Inspection Approach (RBIA).

Brief on new proposed risk-based inspection approach:

1. The Risk based inspection Approach (RBIA) is implemented by NSDL for inspection of Depository Participants in line with the extant SEBI Master Circular for Depositories for Depository Participants. Similar RBIA is proposed for the RTA Inspections. The proposed RBIA for RTAs shall further strengthen inspections of RTAs as new set of parameters are identified from past inspection experiences of supervision and inspections of RTAs. The approach aims to propose a risk-based model which is more comprehensive, has a wider coverage of risk factors and uses a new scoring model to differentiate RTAs from one another, based on their individual risk scores. This could enable and assist NSDL in categorizing the RTAs as 'High', 'Medium High', 'Medium' and 'Low' risk and in turn use these categories as a basis to prioritize inspections.
2. Under the proposed new RBIA methodology, RTAs will be classified on the basis of their percentile of risk score which determines the frequency of their inspection in line with the DP risk-based inspection policy.

| Sr No. | Percentile of Risk Score | Risk classification | Frequency of RTA Inspection |
|--------|--------------------------|---------------------|--------------------------------------|
| 1 | ≥80 | High | Every year (12 months) |
| 2 | ≥46 to < 80 | Medium High | Every One and half years (18 months) |
| 3 | >20 to <46 | Medium | Once in Two years (24 months) |
| 4 | ≤20 | Low | Once in Three Years (36 months) |

3. Accordingly, Risk based inspection policy has been formulated for documenting the framework to be adopted for risk-based inspection approach elaborating on all parameters considered for risk categorization and sub-parameters which are factored in the risk rating exercise for classifying the DPs into different risk buckets. The aforesaid policy shall be reviewed immediately after six months from implementation and subsequently on an annual basis. Further the risk rating exercise for RTAs shall be conducted at least two times in a financial year.

The Board on recommendation of Regulatory Oversight Committee, is requested to review and approve the Risk based inspection policy for RTAs and Issuer's.

➤ **Status of investor grievances received by NSDL**

NSDL receives the grievances from investors :

- a. directly (electronic form/ physical form/NSDL online portal)
- b. through SEBI (SCORES)

The above grievances received at NSDL are mainly classified as:

- a. against Depository Participants (DPs)
- b. against Issuers/Registrar & Transfer Agents (RTAs)
- c. against Depository (includes CAS grievances)

Grievances mentioned in point '2' above have been categorized as per types prescribed in SEBI Circular ref no. SEBI/MRD/OIAE/Dep/Cir-4/2010 dated January 29, 2010. The same are as under:

1. Account Opening Related
2. Demat/ Remat Related
3. Transaction Statement Related
4. Improper Service Related
5. Charges Related
6. Delivery Instruction Related (DIS)

7. Closure
8. Manipulation/ Unauthorized Action
9. Company/ RTA Related
10. Others

Further, NSDL also receives:

- a. Grievances pertaining to broking, PAN related and other entity related etc., which are categorized as “grievance outside the NSDL purview”.
- b. Queries on processes, general information etc., which are classified as “non-grievance”.

The month wise details of grievances received directly by NSDL and from SEBI (other than CAS) as mentioned in point no.2 above are to be placed and summary of pending grievances as on March 31, 2024 is as provided below-

| Pending at Beginning of Month of March 2024 | Grievances Received during the month of March 2024 | Grievances Resolved during the month of March 2024 | Pending at end of month (March 31, 2024) | Pending aging in days | | | | | Pending at end of month (March 31, 2024) |
|---|--|--|--|-----------------------|-----------|------------|------------|------------|--|
| | | | | Upto 7 days | 8-15 days | 16-21 days | 22-30 days | 30-60 days | |
| 180 | 528 | 553 | 155 | 113 | 42 | 0 | 0 | 0 | 155 |

Note-

- Earlier the timeline to redress the grievances was 30 days. Pursuant to Amendment in SEBI D&P Regulation 2018 vide notification dated August 16, 2023, the timeline to redressal grievances has been revised from 30 days to 21 days.
- It may be mentioned that all the above 155 grievances pending as on March 31, 2024, were subsequently redressed within the stipulated timeline of 21 days.

The quarter wise count of grievances received directly by NSDL & from SEBI (other than CAS) is as below:

| Investor Grievances | Q4 - FY2022- 23 (Jan to Mar) | Q1- FY2023- 24 (Apr to Jun) | Q2- FY2023- 24 (July to Sept) | Q3- FY2023- 24 (Oct to Dec) | Q4- FY2023- 24 (Jan to Mar) |
|---|---------------------------------------|--------------------------------------|--|--------------------------------------|--------------------------------------|
| Pending at Beginning of quarter (A) | 151 | 124 | 119 | 266 | 173 |
| Grievances received during quarter | | | | | |
| · Against DPs | 834 | 808 | 1240 | 1091 | 1317 |
| · Against Depository | 449 | 405 | 468 | 262 | 271 |
| · Against Issuers / RTAs | 81 | 56 | 70 | 72 | 43 |
| · Incomplete Details | 54 | 45 | 47 | 67 | 39 |
| · Erroneous Transfer | 5 | 1 | 0 | 3 | 5 |
| Total Grievances received during quarter (B) | 1423 | 1315 | 1825 | 1495 | 1675 |
| Total Received (A+ B) | 1574 | 1439 | 1944 | 1761 | 1848 |
| Total Resolved | 1450 | 1320 | 1678 | 1588 | 1693 |
| Pending at end of quarter* | 124 | 119 | 266 | 173 | 155 |
| Outside NSDL purview** | 267 | 264 | 342 | 282 | 243 |

*Total pending IGs on the last date of respective quarter are subsequently resolved.

** Grievances pertaining to broking/ trading, other entity related (such as PAN related, Demat account held with CDSL, Banking etc which are categorized as “outside the NSDL purview”

The below trend is observed in grievances between the last two quarters-

| Against Depository Participants (DPs) | Increase of 20% is observed in Q4 of FY 2023-24 as compared to Q3 of F.Y. 2023-24. These increases are mainly in the below category. | | | | |
|--|--|-------------------|-------------------------|-------------------------|-----------------|
| | Sr.no | Type of complaint | Count in Q3 of FY 23-24 | Count in Q4 of FY 23-24 | % in change |
| | 1 | Charges | 63 | 105 | Increase by 66% |
| | 2 | Closure | 171 | 226 | Increase by 32% |
| 3 | Improper Services grievances | 470 | 542 | Increase by 15% | |

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| | <ul style="list-style-type: none"> As Q4 is a last quarter of Financial Year it has resulted in increase in closure of demat account to avoid paying the AMC for demat account/s. Improper Services grievances which include grievances related to Deactivation/ Freezing/Suspension of account, Transmission of shares and non updation of changes in demat account. Out of 542, 74% (404) grievance pertains to Deactivation/ Freezing/Suspension of account. These types of grievances are received mainly due to unawareness of demat account status by investors. Investor approaches NSDL for seeking/ clarification on freezing of demat accounts. |
| Against Depository | <p>Minor rise of 3% is observed in Q4 of F.Y.2023-2024 as compared to Q3 of F.Y. 2023-24</p> <p>In SGB related IGs, 26% decline in grievances has been seen in Q4 FY2023-24. This has been mainly attributed due to the focus approach by having a dedicated IG officer doing persistence follow up with SGB Operations team and prioritization of IG resolution in timely manner with knowledge.</p> |
| Against Issuers/Registrar & Transfer Agents (RTAs) | <p>Decrease of 40% is observed in Q4 of F.Y.2023-2024 as compared to Q3 of F.Y. 2023-24. The decrease is mainly due to non-receipt of cash/non cash benefits grievances.</p> |

There is decrease in Turn Around Time (TAT) in redressal of grievances in Q4 of FY 2023-24. Summary details of ageing analysis are placed below. It is observed that in Q4 FY22-23 8% grievance got resolved within 22-30 days which was reduced to 0.92% in Q4 FY23-24. Further, in Q4 FY22-23 9.86% grievance got resolved within above 31days which was reduced to 0.16% in Q4 FY23-24.

| In days /Quarters | Upto 7 days | | 8- 15 days | | 16-21 days | | 22-30 days | | 31 days above | | Total redressal of grievances |
|--------------------------|-------------|----------------|------------|----------------|------------|----------------|------------|----------------|---------------|----------------|-------------------------------|
| | No. of IGs | % of Total IGs | No. of IGs | % of Total IGs | No. of IGs | % of Total IGs | No. of IGs | % of Total IGs | No. of IGs | % of Total IGs | |
| Q4- FY2022-23 Jan to Mar | 684 | 47.17 | 387 | 26.69 | 120 | 8.28 | 116 | 8.00 | 143 | 9.86 | 1450 |

| | | | | | | | | | | | |
|-----------------------------------|-----|-------|-----|-------|-----|-------|----|------|----|------|-------------|
| Q1- FY 2023-24 Apr to Jun | 712 | 53.94 | 374 | 28.33 | 112 | 8.48 | 98 | 7.42 | 24 | 1.82 | 1320 |
| Q2- FY2023- 24 July to Sept | 867 | 51.67 | 525 | 31.29 | 189 | 11.26 | 87 | 5.18 | 10 | 0.60 | 1678 |
| Q3- FY2023- 24 (OCT to Dec) | 689 | 43.39 | 584 | 36.78 | 275 | 17.32 | 37 | 2.33 | 3 | 0.19 | 1588 |
| Q4- FY2023- 24 (Jan to Mar) | 848 | 45.89 | 714 | 38.64 | 266 | 14.39 | 17 | 0.92 | 3 | 0.16 | 1848 |

Note:-

- During Q4 FY2023-24, 17 grievances were redressed between 22 to 30 days and three grievances were redressed above 31 days which was received at NSDL during December 2023, January 2024 and February 2024.
- It may be mentioned that three grievances (pertaining to non-receipt of SGB Interest), which were received during the month of December 2023 got redressed on 33rd day after receipt of response from SGB operation team.
- 17 grievances received during the month of January 2024 and February 2024 were redressed, between 22-23 days, subsequent to responses /clarification received from the respective DPs.
- With a view to improve the operational efficiency and adherence of the TAT of 21 days, Department has implemented a focus approach of rigorous follow up with DPs, RTAs to ensure timely redressal of submission of response, including monitoring and redressal of grievances. This has resulted into March 2024 no grievances redressed more than 21 days.

CAS grievances:

The Quarter-wise counts of CAS grievances is to be placed.

The statistic of CAS grievances corresponding to CAS dispatched in Q4 (FY2023-24) is as under:

| Month | No. of Grievances | CAS Dispatched | % of Grievances |
|--------|-------------------|-------------------------|-----------------|
| Jan-24 | 4073 | 64,66,142 | 0.06% |
| Feb-24 | 3765 | 66,58,883 | 0.06% |
| Mar-24 | 2450 | CAS dispatch in process | NA |

Unauthorized Transfer grievances (UT):

The summary of grievances related to allegations of unauthorized transfer of securities for Q4 (from January 1, 2024, to March 31, 2024) is given below.

| UT grievance Particulars | Q3- FY2023-24 (Oct to Dec) | Q4- FY2023-24 (Jan to Mar) |
|--|----------------------------|----------------------------|
| Pending at Beginning of quarter | 0 | 0 |
| Total complaints received during quarter | 15 | 20 |
| Complaints Resolved during quarter | 15 | 20 |
| Pending at end of quarter | 0 | 0 |

Based on the analysis done, it is observed that there were 15 instances of UT grievances observed for Q3 FY 2023-24 (October 1, 2023, to December 31, 2023) spread across eight DPs. Further, for Q4 FY 2023-24 (January 1, 2024, to March 31, 2024), 20 instances spread across 14 DPs.

For both the above quarters, no instances were reported wherein DP has more than five instances of Unauthorized Transfers during the month. Further, in Q4 FY 2023-24, the grievance observed are mainly related to securities debited based on Delivery Instruction Slip (DIS)/ POA and securities are debited on basis of corporate action declared by company.

The Board is requested to review the status of Investor Grievances.