

EXTRACTS OF THE MINUTES OF THE 88TH 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 network computation format**

“**RESOLVED THAT** based on the recommendation of the Regulatory Oversight Committee, the Board be and hereby approved the amendments in the network computation prescribed by both the Depositories for DPs as mentioned in Form 1 (Annexure L) as circulated to the Board and accorded its consent for onward submission to SEBI.

RESOLVED FURTHER THAT the Managing Director & Chief Executive Officer, Executive Director, Compliance Officer, Chief Regulatory Officer, Company Secretary and Function Lead (Inspection) be and are hereby severally authorised to do all such acts, deeds, matters and things as may be necessary to give effect to this resolution.”

The above circular resolution was unanimously approved by the Board.

- **Amendment to Bye Laws for incorporating timelines for submission of network certificate to Depository**

The Board was informed that as per NSDL Bye law 10.2.1, all DPs were 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 were required to also submit the net worth certificate duly certified by a Chartered Accountant basis the annual audited accounts of participants. It was further informed that SEBI vide letter dated March 20, 2024 had pointed out that NSDL did not specify a timeline for the submission of the net worth certificate in its Bye-laws and Business Rules.

Accordingly, it was proposed to specify the timeline for submission of net worth certificate by DPs in line with the timelines mentioned for submission of audited financial statements i.e. October 31 every year, by amending the Bye law 10.2.1.

The aforesaid matter was considered by the Regulatory Oversight Committee at its meeting held on May 13, 2024 and the views of the Committee were shared.

The Board, after detailed deliberations, approved the above necessary changes and the consequent amendments to aforesaid Business Rules, as may be required from time to time on further instructions from SEBI by passing the following resolution:

“RESOLVED THAT based on the recommendation of Regulatory Oversight Committee, the Board be and hereby approved the amendments to Bye Laws 10.2.1 and accorded its consent for onward submission to SEBI.

RESOLVED FURTHER THAT the Managing Director & CEO, Executive Director, Chief Regulatory Officer, Compliance Officer, Chief Financial Officer and Company Secretary of the Company be and are hereby severally authorized to do all such acts, deeds, matters and things as may be necessary to give effect to this resolution.

RESOLVED FURTHER THAT any Director or Company Secretary be and are hereby severally authorised to furnish a certified true copy of the said resolution for necessary action, reference and record.”

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

The Regulatory Oversight Committee at its meeting held on May 22, 2023 and the Board at its meeting held on May 23, 2023 approved the proposal for amendment to NSDL Business Rules with respect to introducing a new penalty head for non-compliance by DPs regarding assessing the eligibility of Beneficial Owners (BO) for conversion of eligible demat accounts to Basic Service Demat Account (BSDA) as per SEBI guidelines.

In response to the amendment submitted to SEBI, it was advised by SEBI that the proposed penalty amount of Rs. 5000/- per occasion was not enough to deter any DP from not converting eligible BOs to BSDA and advised to reassess the proposed penalty amount.

It was further informed that the revised penalty proposal for BSDA non-compliance by DPs was approved through circular resolution by the Committee on October 17, 2023 and by the Board on October 18, 2023 and thereafter submitted to SEBI on October 30, 2023.

SEBI vide letter dated January 08, 2024 advised to make the following changes:

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

In view of the above, both the Depositories deliberated to have the revised uniform penalty in the matter and the below was placed before the Board for approval:

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

The Board was also apprised that the existing penalty structure under various penalty heads were reviewed keeping in view in the SEBI/NSDL guidelines, over a period of time. Accordingly, the following proposed changes in the provisions of Chapter 18 of NSDL Business Rules were placed before the Board for approval.

Sr. No.	Existing Provisions	Proposed 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.
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.

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.____).
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The aforesaid matter was considered by the Regulatory Oversight Committee at its meeting held on May 13, 2024 and the views of the Committee were shared.

The Board on recommendation of the Regulatory Oversight Committee, reviewed and approved the amendments to the Business Rules and recommended the onward submission of Business rules to SEBI for its approval by passing the following resolution:

“RESOLVED THAT based on the recommendation of Regulatory Oversight Committee, the Board be and hereby approved the amendments in the provisions of Chapter 18 of NSDL Business Rules and accorded its consent for onward submission to SEBI.

RESOLVED FURTHER THAT the Managing Director & CEO, Executive Director, Chief Regulatory Officer, Compliance Officer, Chief Financial Officer and Company Secretary of the Company be and are hereby severally authorized to do all such acts, deeds, matters and things as may be necessary to give effect to this resolution.

RESOLVED FURTHER THAT any Director or Company Secretary be and are hereby severally authorised to furnish a certified true copy of the said resolution for necessary action, reference and record.

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

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

Brief on the proposed RBIA:

The Board was apprised that the RBIA was implemented by NSDL for inspection of Depository Participants in line with the extant SEBI Master Circular for Depositories applicable for Depository Participants. A similar RBIA is proposed for the RTA Inspections. The proposed RBIA will use a specific set of parameters identified from past experiences of supervision and inspections of RTAs. It is a risk-based model that is more comprehensive, had a wider coverage of risk factors, and is used as a scoring model to differentiate RTAs from one another, based on their risk scores. This will enable NSDL to classify the RTAs as 'High', 'Medium High', 'Medium', and 'Low' risk categories and in turn prioritise inspections accordingly.

It was further informed that under the proposed RBI methodology, RTAs will be classified on the basis of their percentile of risk score which will determine the frequency of their inspection as mentioned below:

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)

It was further informed that the aforesaid policy shall be reviewed after six months of 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 aforesaid matter was considered by the Regulatory Oversight Committee at its meeting held on May 13, 2024 and the views of the Committee were shared.

The Board, on recommendation of Regulatory Oversight Committee, reviewed and approved the Risk based inspection policy for RTAs by passing the following resolution:

“RESOLVED THAT based on the recommendations of Regulatory Oversight Committee, the Board be and hereby approved the Risk based inspection policy for RTAs.

RESOLVED FURTHER THAT the Managing Director & CEO or Executive Director or Chief Regulatory Officer or Compliance Officer or Chief Financial Officer or Company Secretary

be and are hereby severally authorised to do all such acts and things as may be required for giving effect to this resolution.

RESOLVED FURTHER THAT any Director or Company Secretary be and are hereby severally authorised to furnish a certified true copy of the said resolution for necessary action, reference and record”

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

The Board was apprised of the details of grievances received directly by NSDL and from SEBI (other than CAS) during the September to December quarter. Further, a summary of pending grievances as of March 31, 2024, and a quarter-wise count of grievances received directly by NSDL & from SEBI (other than CAS) was placed before the Board.

The Board was informed that an increase of 20% was observed in Q4 of FY 2023-24 as compared to Q3 of FY 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%

- As Q4 is the last quarter of the Financial Year it has resulted in an increase in the closure of demat accounts 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) of grievance pertains to the Deactivation/ Freezing/Suspension of account. These types of grievances were received mainly due to unawareness of demat account status by investors. Investor approaches NSDL for seeking/ clarification on freezing of demat accounts.

A minor rise of 3% was observed in Q4 of FY 2023-2024 as compared to Q3 of FY 2023-24 against Depository in SGB related IGs, 26% decline in grievances had been seen in Q4 FY2023-24. This had been mainly attributed to the focused approach of having a dedicated IG officer doing persistent follow up with the SGB Operations team and prioritization of IG resolution in a timely manner.

A decrease of 40% was observed in Q4 of FY 2023-2024 as compared to Q3 of F.Y. 2023-24 in grievances against Issuers/Registrar & Transfer Agents (RTAs). The decrease was mainly due to non-receipt of cash/non-cash benefits grievances.

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

The quarter-wise counts of CAS grievances and the statistics of CAS grievances corresponding to CAS dispatched in Q4 of FY 2023-24 and the summary of grievances related to allegations of unauthorized transfer of securities for Q4 of FY 2023-24 were also placed before the Board. The Committee was also informed that grievances were mainly related to securities debited based on Delivery Instruction Slip (DIS)/ POA and securities were debited on basis of corporate action declared by the Company.

The aforesaid matter was considered by the Regulatory Oversight Committee at its meeting held on May 13, 2024 and the views of the Committee were shared.

The Board after deliberations reviewed and noted the above.