

**National Securities Depository Limited**  
**Principles for Financial Market**  
**Infrastructure Disclosure**

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## **I Executive Summary**

The Committee on Payments and Market Infrastructure\* and the Technical Committee of the International Organisation of Securities Commissions (CPMI – IOSCO) have specified that financial market infrastructures (FMIs), include central securities depositories (CSDs), securities settlement systems, central counterparties, payment systems and trade repositories which facilitate clearing, settling and recording of monetary and other financial transactions.

In April 2012, CPMI-IOSCO issued a report on the Principles for financial market infrastructures (FMI Principles) containing 24 principles. A key objective of the FMI Principle is to encourage clear disclosure of the principles by the FMIs through a public “disclosure framework”.

NSDL is incorporated under the Companies Act 1956 and registered as CSD in India with Securities Exchange Board of India (SEBI) under Depositories Act, 1996. This disclosure framework is intended to provide disclosures to NSDL’s stakeholders in accordance with the CPMI-IOSCO report.

\*Prior to September 1, 2014, the Committee on Payments and Market Infrastructures was known as the Committee on Payment and Settlement Systems.

## **II. Summary of major changes since the last update of the disclosure**

The first disclosure of FMI Principles was made by NSDL on October 6, 2017. This disclosure is reviewed and certain changes related to reference to the amended regulations and updations in data are made [Ref. Principle 1, 2, 11 and 15].

## **III. General Background of NSDL**

NSDL is incorporated under the Companies Act, 1956 and regulated by Securities Exchange Board of India (SEBI). In addition to the Companies Act, NSDL is also required to comply with the provisions of the Depositories Act 1996, SEBI (Depositories and Participants) Regulations, 2018 and the guidelines issued by SEBI from time to time.

NSDL's Board consists of experienced professionals and the composition is in accordance with the guidelines prescribed by SEBI. Accordingly, the Board consists of Public Interest Directors, Shareholder Directors and the Managing Director. The Board and the Board level committees oversee the affairs of NSDL. The Board is responsible for overall business performance and formulation of strategies and policies

NSDL operates in Indian jurisdiction and there are no cross border linkages currently.

NSDL is a CSD where the securities are held in dematerialised form and securities are fungible in accordance with Depositories Act 1996. Under legal framework securities are mandatorily held in segregated accounts in the name of Beneficial Owner.

The operations of the depository including its quarterly financial statements are reviewed by the Board of Directors and the Audit Committee periodically. NSDL is also an ISO 27001 complaint organisation.

## **Principle 1: Legal basis**

**An FMI should have a well-founded, clear, transparent, and enforceable legal basis for each material aspect of its activities in all relevant jurisdictions.**

*KC 1.1: The legal basis should provide a high degree of certainty for each material aspect of an FMI's activities in all relevant jurisdictions.*

NSDL operates under well-founded, legal framework which comprises of the Depositories Act, 1996; SEBI (Depositories and Participants) Regulations 2018, Circulars & Guidelines issued by SEBI, Bye Laws and Business Rules of NSDL and also agreements entered with Business Partners which provide a high degree of certainty for each material aspect of the activities.

*KC 1.2: An FMI should have rules, procedures, and contracts that are clear, understandable, and consistent with relevant laws and regulations.*

- a. NSDL has formulated its Bye-Laws, Business Rules and procedures in accordance with the legal framework outlined above.
- b. The Bye Laws & Business Rules are approved by the Board of Directors and Executive Committee of NSDL respectively. The Bye Laws of NSDL are approved by SEBI and Business Rules are notified to SEBI.
- c. NSDL enter into agreement with its Participants, Clearing Corporations, Issuers and RTA in accordance of Bye Laws & Business Rules of NSDL.

*KC 1.3: An FMI should be able to articulate the legal basis for its activities to relevant authorities, participants, and, where relevant, participants' customers, in a clear and understandable way.*

Based on legal framework outlined above NSDL is able to articulate the legal basis for its activities to relevant authorities, participants, and, where relevant, participants' customers, in a clear and understandable way. The legal framework is available in public domain. NSDL relies on the relevant provisions of the Depositories Act and SEBI Regulations, if required to articulate the legal basis for its activities.

*KC 1.4: An FMI should have rules, procedures, and contracts that are enforceable in all relevant jurisdictions. There should be a high degree of certainty that actions taken by the FMI under such rules and procedures will not be voided, reversed, or subject to stays.*

India has well founded legal system which provides high degree of certainty that the action taken by NSDL under its rules, procedures and agreements are enforceable.

*KC 1.5: An FMI conducting business in multiple jurisdictions should identify and mitigate the risks arising from any potential conflict of laws across jurisdictions.*

NSDL does not operate in multiple jurisdictions.

## **Principle 2: Governance**

**An FMI should have governance arrangements that are clear and transparent, promote the safety and efficiency of the FMI, and support the stability of the broader financial system, other relevant public interest considerations, and the objectives of relevant stakeholders.**

The SEBI (Depositories and Participants) Regulations and relevant circulars issued by SEBI prescribe key governance arrangements relating to shareholding of depository, Governing Board & Management and also prescribe code of conduct for director and key management personal. Appointment of Directors and Management require SEBI approval and no shareholder can hold more than 2% holding in depository without SEBI approval. In addition, the disclosure requirements and corporate governance norms as specified for listed companies are mutatis mutandis applicable to NSDL.

Thus NSDL has governance arrangements that are clear and transparent, promote the safety and efficiency of the NSDL, and support the stability of the broader financial system, other relevant public interest considerations, and the objectives of relevant stakeholders.

*KC 2.1: An FMI should have objectives that place a high priority on the safety and efficiency of the FMI and explicitly support financial stability and other relevant public interest considerations.*

NSDL operates under well established legal framework that places high priority on the safety and efficiency of NSDL and explicitly support financial stability and other relevant public interest considerations.

*KC 2.2: An FMI should have documented governance arrangements that provide clear and direct lines of responsibility and accountability. These arrangements should be disclosed to owners, relevant authorities, participants, and, at a more general level, the public.*

NSDL has documented governance arrangements that provide clear and direct lines of responsibility and accountability. These arrangements are disclosed publicly by way of Corporate Governance Report published annually.

*KC 2.3: The roles and responsibilities of an FMI's board of directors (or equivalent) should be clearly specified, and there should be documented procedures for its functioning, including procedures to identify, address, and manage member conflicts of interest. The board should review both its overall performance and the performance of its individual board members regularly.*

Roles and Responsibilities of board of directors are well defined under Companies Act, 2013, SEBI (Depositories and Participants) Regulations 2018 and SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015. The board has well established procedure for functioning in accordance with standard published by ICSI. In addition the board reviews the performance of members and committees annually.

*KC 2.4: The board should contain suitable members with the appropriate skills and incentives to fulfil its multiple roles. This typically requires the inclusion of non-executive board member(s).*

Composition of the board is governed by SEBI (Depositories and Participants) Regulations, 2018 and consists of Shareholder Directors, Public Interest Directors and Managing Director. SEBI (Depositories and Participants) Regulations 2018 also specifies that the number of public interest directors shall not be less than the number of shareholder directors in a depository. The board consists of the person of integrity and possesses relevant expertise and experience. The appointment of any director is subject to SEBI approval and fit and proper person criteria as prescribed in the SEBI (Depositories and Participants) Regulations 2018.

*KC 2.5: The roles and responsibilities of management should be clearly specified. An FMI's management should have the appropriate experience, a mix of skills, and the integrity necessary to discharge their responsibilities for the operation and risk management of the FMI.*

The roles and responsibilities of management are clearly defined. NSDL Management has the appropriate experience, mix of skills, and the integrity necessary to discharge their responsibilities. Board members and Key Management Personal are required to be fit and proper person and follow



code of conduct as prescribed under SEBI (Depositories and Participants) Regulations, 2018.

*KC 2.6: The board should establish a clear, documented risk-management framework that includes the FMI's risk-tolerance policy, assigns responsibilities and accountability for risk decisions, and addresses decision making in crises and emergencies. Governance arrangements should ensure that the risk-management and internal control functions have sufficient authority, independence, resources, and access to the board.*

NSDL has comprehensive Risk Management Framework approved by the board in compliance with guidelines issued by SEBI and includes risk tolerance policy. NSDL has constituted a Risk Management Group/Committee in accordance with SEBI guidelines headed by a Chief Risk Officer who has access to the board.

*KC 2.7: The board should ensure that the FMI's design, rules, overall strategy, and major decisions reflect appropriately the legitimate interests of its direct and indirect participants and other relevant stakeholders. Major decisions should be clearly disclosed to relevant stakeholders and, where there is a broad market impact, the public.*

Legal & Regulatory framework and governance arrangements as outlined above ensure that design, rules, overall strategy, and major decisions reflect appropriately the legitimate interests of its participants and other relevant stakeholders. All decisions related to relevant stakeholders are communicated by way of Circulars.

**Principle 3: Framework for the comprehensive management of risks**

**An FMI should have a sound risk-management framework for comprehensively managing legal, credit, liquidity, operational, and other risks.**

*KC 3.1 An FMI should have risk-management policies, procedures, and systems that enable it to identify, measure, monitor, and manage the range of risks that arise in or are borne by the FMI. Risk-management frameworks should be subject to periodic review.*

NSDL has a Risk Management Framework in line with the SEBI guidelines that comprehensively address the applicable risks.

*KC 3.2: An FMI should provide incentives to participants and, where relevant, their customers to manage and contain the risks they pose to the FMI.*

NSDL prescribes rules and procedures to participants and where relevant to their customers to manage and contain the risk to NSDL. Further, NSDL also mandates audit arrangements to its participants that cover their operations and also mandates participants to submit such report to NSDL. NSDL also conducts inspection of its participants.

*KC 3.3: An FMI should regularly review the material risks it bears from and poses to other entities (such as other FMIs, settlement banks, liquidity providers, and service providers) as a result of interdependencies and develop appropriate risk-management tools to address these risks.*

The Risk Management Framework of NSDL addresses material risks it bears from and poses to other entities (such as other FMIs and service providers) as a result of interdependencies and develops appropriate risk-management tools to address these risks.

*KC 3.4: An FMI should identify scenarios that may potentially prevent it from being able to provide its critical operations and services as a going concern and assess the effectiveness of a full range of options for recovery or orderly wind-down. An FMI should prepare appropriate plans for its recovery or orderly wind-down based on the results of that assessment. Where applicable, an FMI should also provide*

*relevant authorities with the information needed for purposes of resolution planning.*

NSDL has a Disaster Recovery plan and Business Continuity Management framework to address scenarios that may potentially prevent it from being able to provide its critical operations and services. The Disaster Recovery Policy and Business Continuity Management policy also takes into account the effectiveness of recovery plan. In case of orderly wind-down, the regulator's advice will be followed and implemented.

**Principle 4: Credit risk**

Not Applicable to NSDL

## **Principle 5: Collateral**

Not Applicable to NSDL

## **Principle 6: Margin**

Not Applicable to NSDL

## **Principle 7: Liquidity Risk**

Not Applicable to NSDL

## **Principle 8: Settlement Finality**

Not Applicable to NSDL



## **Principle 9: Money Settlements**

Not Applicable to NSDL

**Principle 10: Physical Deliveries**

**An FMI should clearly state its obligations with respect to the delivery of physical instruments or commodities and should identify, monitor, and manage the risks associated with such physical deliveries.**

*KC 10.1: An FMI's rules should clearly state its obligations with respect to the delivery of physical instruments or commodities.*

NSDL does not handle any physical deliveries.

*KC 10.2: An FMI should identify, monitor, and manage the risks and costs associated with the storage and delivery of physical instruments or commodities.*

Not applicable

## **Principle 11: Central securities depositories**

**A CSD should have appropriate rules and procedures to help ensure the integrity of securities issues and minimise and manage the risks associated with the safekeeping and transfer of securities. A CSD should maintain securities in an immobilised or dematerialised form for their transfer by book entry.**

*KC 11.1: A CSD should have appropriate rules, procedures, and controls, including robust accounting practices, to safeguard the rights of securities issuers and holders, prevent the unauthorised creation or deletion of securities, and conduct periodic and at least daily reconciliation of securities issues it maintains.*

- a. NSDL has appropriate rules, procedures, and controls, including robust accounting practices, to safeguard the rights of securities issuers and holders.
- b. Any creation or deletion of securities is allowed after submission of prescribed documents including applicable legal and stock exchange approvals.
- c. NSDL has an automated system of reconciliation of securities with its Participant on real time basis and also at the end of the day. In addition SEBI regulation requires issuer to reconcile dematerialised securities with all the securities issued by issuer on daily basis. NSDL also carries out internal automated reconciliation to ensure integrity of its securities accounting system on daily basis.

*KC 11.2: A CSD should prohibit overdrafts and debit balances in securities accounts.*

No overdraft and debit balances in securities accounts permitted in NSDL.

*KC 11.3: A CSD should maintain securities in an immobilised or dematerialised form for their transfer by book entry. Where appropriate, a CSD should provide incentives to immobilise or dematerialise securities.*

NSDL maintains securities only in dematerialised form.

*KC 11.4: A CSD should protect assets against custody risk through appropriate rules and procedures consistent with its legal framework.*

Under legal framework securities are mandatorily held in segregated account in the name of Beneficial Owner.

*KC 11.5: A CSD should employ a robust system that ensures segregation between the CSD's own assets and the securities of its participants and segregation among the securities of participants. Where supported by the legal framework, the CSD should also support operationally the segregation of securities belonging to a participant's customers on the participant's books and facilitate the transfer of customer holdings.*

Under legal framework securities are mandatorily held in segregated account in the name of Beneficial Owner.

*KC 11.6: A CSD should identify, measure, monitor, and manage its risks from other activities that it may perform; additional tools may be necessary in order to address these risks.*

Under SEBI (Depositories and Participants) Regulations, 2018 NSDL is not permitted to carry on any activity other than that of a depository unless the activity is incidental to the activity of the depository.

## **Principle 12: Exchange-of-value settlement systems**

Not Applicable to NSDL

### **Principle 13: Participant-default rules and procedures**

**An FMI should have effective and clearly defined rules and procedures to manage a participant default. These rules and procedures should be designed to ensure that the FMI can take timely action to contain losses and liquidity pressures and continue to meet its obligations.**

*KC 13.1: An FMI should have default rules and procedures that enable the FMI to continue to meet its obligations in the event of a participant default and that address the replenishment of resources following a default.*

NSDL has well-defined rules and procedures for termination of participant in case of default by participant. Since it maintains the account in a segregated manner, NSDL can continue to meet its obligation and also facilitate transfer of accounts by clients of defaulting participant to other participant.

*KC 13.2: An FMI should be well prepared to implement its default rules and procedures, including any appropriate discretionary procedures provided for in its rules.*

NSDL is well prepared to implement its default rules and procedures.

*KC 13.3: An FMI should publicly disclose key aspects of its default rules and procedures.*

The NSDL Bye Laws and Business Rules contain the key aspects of default rules and procedures which are publicly disclosed.

*KC 13.4: An FMI should involve its participants and other stakeholders in the testing and review of the FMI's default procedures, including any close-out procedures. Such testing and review should be conducted at least annually or following material changes to the rules and procedures to ensure that they are practical and effective.*

NSDL's default procedures are well established and demonstrated in the practice.

**Principle 14: Segregation and portability**

Not Applicable to NSDL

## **Principle 15: General Business Risk**

**An FMI should identify, monitor, and manage its general business risk and hold sufficient liquid net assets funded by equity to cover potential general business losses so that it can continue operations and services as a going concern if those losses materialise. Further, liquid net assets should at all times be sufficient to ensure a recovery or orderly wind-down of critical operations and services.**

*KC 15.1: An FMI should have robust management and control systems to identify, monitor, and manage general business risks, including losses from poor execution of business strategy, negative cash flows, or unexpected and excessively large operating expenses.*

NSDL has adequate management and control systems to identify, monitor, and manage general business risks, including losses. Financial results of NSDL are available in public domain which is published on quarterly basis.

*KC 15.2: An FMI should hold liquid net assets funded by equity (such as common stock, disclosed reserves, or other retained earnings) so that it can continue operations and services as a going concern if it incurs general business losses. The amount of liquid net assets funded by equity an FMI should hold should be determined by its general business risk profile and the length of time required to achieve a recovery or orderly wind-down, as appropriate, of its critical operations and services if such action is taken.*

NSDL hold adequate liquid net assets funded by equity (such as common stock, disclosed reserves, or other retained earnings) so that it can continue operations and services as a going concern if it incurs general business losses.

*KC 15.3: An FMI should maintain a viable recovery or orderly wind-down plan and should hold sufficient liquid net assets funded by equity to implement this plan. At a minimum, an FMI should hold liquid net assets funded by equity equal to at least six months of current operating expenses. These assets are in addition to resources held to cover participant defaults or other risks covered under the financial resources principles. However, equity held under international risk-based capital standards can be included where relevant and appropriate to avoid duplicate capital requirements.*



NSDL holds sufficient net assets funded by equity to implement this plan. As on March 31, 2018 NSDL's liquid net assets amount to 47 months' of current operating expenses.

*KC 15.4: Assets held to cover general business risk should be of high quality and sufficiently liquid in order to allow the FMI to meet its current and projected operating expenses under a range of scenarios, including in adverse market conditions.*

NSDL has invested in high quality and sufficiently liquid assets in accordance with NSDL investment policy framed by the board.

*KC 15.5: An FMI should maintain a viable plan for raising additional equity should its equity fall close to or below the amount needed. This plan should be approved by the board of directors and updated regularly.*

As per Regulation 14 (1) (a) of SEBI (Depositories and Participants) Regulations 2018, a depository should have a net worth of not less than rupees one hundred crores. The net worth of NSDL is much higher than that required in the aforesaid regulation. Decision to replenish the equity capital, if required, will be taken by the Board of Directors of NSDL.

## **Principle 16: Custody and investment risk**

**An FMI should safeguard its own and its participants' assets and minimise the risk of loss on and delay in access to these assets. An FMI's investments should be in instruments with minimal credit, market, and liquidity risks.**

*KC 16.1: An FMI should hold its own and its participants' assets at supervised and regulated entities that have robust accounting practices, safekeeping procedures, and internal controls that fully protect these assets.*

Only in case of government securities NSDL, holds the assets with other entity in SGL with RBI.

*KC 16.2: An FMI should have prompt access to its assets and the assets provided by participants, when required.*

NSDL has prompt access to its assets and the assets provided by participants.

*KC 16.3: An FMI should evaluate and understand its exposures to its custodian banks, taking into account the full scope of its relationships with each.*

NSDL does not have any exposures to any custodian banks.

*KC 16.4: An FMI's investment strategy should be consistent with its overall risk-management strategy and fully disclosed to its participants, and investments should be secured by, or be claims on, high-quality obligors. These investments should allow for quick liquidation with little, if any, adverse price effect.*

The Board of NSDL has formulated an investment policy and laid down the guidelines to invest the surplus funds available with NSDL on account of normal business operations, internal accruals or maturity of existing investments. The permissible Investments along with the maximum investment limits as prescribed in the investment policy ensure that the investment strategy is consistent with overall risk-management strategy. The permissible Investments along with the maximum investment limits are as prescribed in the investment policy formulated by the Board of NSDL. NSDL does not invest in its participants' own securities or their affiliates.

### **Principle 17: Operational risk**

**An FMI should identify the plausible sources of operational risk, both internal and external, and mitigate their impact through the use of appropriate systems, policies, procedures, and controls. Systems should be designed to ensure a high degree of security and operational reliability and should have adequate, scalable capacity. Business continuity management should aim for timely recovery of operations and fulfilment of the FMI's obligations, including in the event of a wide-scale or major disruption.**

*KC 17.1: An FMI should establish a robust operational risk-management framework with appropriate systems, policies, procedures, and controls to identify, monitor, and manage operational risks.*

NSDL has a Risk Management Framework and internal controls to monitor and manage the operational risks. In addition, standard operating procedures are also laid down to manage such risks.

*KC 17.2: An FMI's BoD should clearly define the roles and responsibilities for addressing operational risk and should endorse the FMI's operational risk-management framework. Systems, operational policies, procedures, and controls should be reviewed, audited, and tested periodically and after significant changes.*

The Risk Management framework of NSDL is endorsed by the Governing Board of NSDL. The Audit committee of the Board reviews the Risk Management Framework periodically for addressing the operational risks. As per SEBI Regulations, NSDL has also constituted a Risk management committee headed by a CRO.

*KC 17.3: An FMI should have clearly defined operational reliability objectives and should have policies in place that are designed to achieve those objectives.*

NSDL has operational reliability objectives in place including availability objectives and business continuity plans. As mandated by SEBI, NSDL also carries out Information Technology Audit annually.

*KC 17.4: An FMI should ensure that it has scalable capacity adequate to handle increasing stress volumes and to achieve its service-level objectives.*

NSDL's system capacity is tested to handle stress volumes and is designed to handle higher volumes than the projected peak load. In addition, SEBI has issued guidelines related to capacity planning which NSDL complies with.

*KC 17.5: An FMI should have comprehensive physical and information security policies that address all potential vulnerabilities and threats.*

NSDL has systems and processes in place for addressing physical and information security. NSDL has obtained ISO 27001 certification which is reviewed periodically. NSDL has in place a multi-layered security architecture providing 'defence in depth'. VAPT tests are undertaken at regular intervals. Information security is also covered under annual Information Technology audits.

*KC 17.6: An FMI should have a business continuity plan that addresses events posing a significant risk of disrupting operations, including events that could cause a wide-scale or major disruption. The plan should incorporate the use of a secondary site and should be designed to ensure that critical information technology (IT) systems can resume operations within two hours following disruptive events. The plan should be designed to enable the FMI to complete settlement by the end of the day of the disruption, even in case of extreme circumstances. The FMI should regularly test these arrangements.*

NSDL has a BCM policy to facilitate uninterrupted business operations. Business continuity procedures and the restart capabilities are regularly tested to ensure smooth operations in case of a disruption. NSDL has a disaster recovery site designed to ensure resumption of critical IT systems in less than two hours. The switchover from the normal system to DRS is tested periodically.

*KC 17.7: An FMI should identify, monitor, and manage the risks that key participants, other FMIs, and service and utility providers might pose to its operations. In addition, an FMI should identify, monitor, and manage the risks its operations might pose to other FMIs.*

NSDL has prescribed the operating procedures and controls to be followed by Participants. Participants are required to appoint internal/concurrent auditors to audit depository operations and submit reports to NSDL. Participants are also subject to inspections by NSDL annually.

## **Principle 18: Access and participation requirements**

**An FMI should have objective, risk-based, and publicly disclosed criteria for participation, which permit fair and open access.**

*KC 18.1: An FMI should allow for fair and open access to its services, including by direct and, where relevant, indirect participants and other FMIs, based on reasonable risk-related participation requirements.*

Participation requirements are laid down in SEBI Regulations and in NSDL's Bye laws and Business Rules.

*KC 18.2: An FMI's participation requirements should be justified in terms of the safety and efficiency of the FMI and the markets it serves, be tailored to and commensurate with the FMI's specific risks, and be publicly disclosed. Subject to maintaining acceptable risk control standards, an FMI should endeavour to set requirements that have the least-restrictive impact on access that circumstances permit.*

The participation requirements are laid down in SEBI Regulations and in NSDL's Bye laws and Business Rules. These are disclosed to the participants and also publicly available.

*KC 18.3: An FMI should monitor compliance with its participation requirements on an ongoing basis and have clearly defined and publicly disclosed procedures for facilitating the suspension and orderly exit of a participant that breaches, or no longer meets, the participation requirements*

NSDL's Bye Laws and Business Rules and the circulars issued from time to time prescribe monitoring mechanisms on an ongoing basis and also lay down procedures for facilitating the orderly exit of a participant that breaches or no longer meets the participation requirements.

**Principle 19 Tiered participation arrangements**

**An FMI should identify, monitor, and manage the material risks to the FMI arising from tiered participation arrangements.**

*KC 19.1: An FMI should ensure that its rules, procedures, and agreements allow it to gather basic information about indirect participation in order to identify, monitor, and manage any material risks to the FMI arising from such tiered participation arrangements.*

NSDL has adopted segregated account structure whereby it maintains the accounts at the beneficial owner level. Participants open and operate accounts for beneficial owners. There is only a two-tiered arrangement comprising Participants who can only open beneficial owner accounts.

## **Principle 20: FMI links**

**An FMI that establishes a link with one or more FMIs should identify, monitor, and manage link-related risks.**

*KC 20.1: Before entering into a link arrangement and on an ongoing basis once the link is established, an FMI should identify, monitor, and manage all potential sources of risk arising from the link arrangement. Link arrangements should be designed such that each FMI is able to observe the other principles in this report.*

NSDL has established links with the other depository, backed by an MoU which addresses the risks arising out of such links.

*KC 20.2: A link should have a well-founded legal basis, in all relevant jurisdictions, that supports its design and provides adequate protection to the FMIs involved in the link.*

The MoU executed with the other depository is the legal basis on which the link is established.

*KC 20.3: Linked CSDs should measure, monitor, and manage the credit and liquidity risks arising from each other. Any credit extensions between CSDs should be covered fully with high-quality collateral and be subject to limits.*

Not applicable

*KC 20.4: Provisional transfers of securities between linked CSDs should be prohibited or, at a minimum, the retransfer of provisionally transferred securities should be prohibited prior to the transfer becoming final.*

There are no provisional transfers between NSDL and the other depository.

*KC 20.5: An investor CSD should only establish a link with an issuer CSD if the arrangement provides a high level of protection for the rights of the investor CSD's participants.*



Not applicable

*KC 20.6: An investor CSD that uses an intermediary to operate a link with an issuer CSD should measure, monitor, and manage the additional risks (including custody, credit, legal, and operational risks) arising from the use of the intermediary.*

Not applicable

*KC 20.7: Before entering into a link with another CCP, a CCP should identify and manage the potential spill-over effects from the default of the linked CCP. If a link has three or more CCPs, each CCP should identify, assess, and manage the risks of the collective link arrangement.*

Not applicable

*KC 20.8: Each CCP in a CCP link arrangement should be able to cover, at least on a daily basis, its current and potential future exposures to the linked CCP and its participants, if any, fully with a high degree of confidence without reducing the CCP's ability to fulfill its obligations to its own participants at any time.*

Not applicable

*KC 20.9: A TR should carefully assess the additional operational risks related to its links to ensure the scalability and reliability of IT and related resources.*

Not applicable

## **Principle 21: Efficiency and effectiveness**

**An FMI should be efficient and effective in meeting the requirements of its participants and the markets it serves**

*KC 21.1: An FMI should be designed to meet the needs of its participants and the markets it serves, in particular, with regard to choice of a clearing and settlement arrangement; operating structure; scope of products cleared, settled, or recorded; and use of technology and procedures.*

Since NSDL is required to adhere to the Depositories Act, SEBI Regulations and also the circulars issued by the regulator, in addition to the Companies Act, corporate governance norms and other applicable legal provisions, it is accordingly designed to meet the needs of its participants and markets it serves.

*KC 21.2: An FMI should have clearly defined goals and objectives that are measurable and achievable, such as in the areas of minimum service levels, risk-management expectations, and business priorities.*

NSDL has well defined business objectives and the business performance is reviewed periodically by the Governing Board and reported to the stakeholders.

*KC 21.3: An FMI should have established mechanisms for the regular review of its efficiency and effectiveness.*

NSDL has well defined business objectives and the business performance is reviewed periodically by the Governing Board and reported to the stakeholders.

**Principle 22: Communication procedures and standards**

**An FMI should use, or at a minimum accommodate, relevant internationally accepted communication procedures and standards in order to facilitate efficient payment, clearing, settlement, and recording.**

*KC 22.1: An FMI should use, or at a minimum accommodate, internationally accepted communication procedures and standards.*

NSDL's systems currently use internationally accepted ISO 15022 messaging format to exchange Inter depository messages and on platform used for processing of electronic contract notes of trade.

**Principle 23: Disclosure of rules, key procedures and market data**

**An FMI should have clear and comprehensive rules and procedures and should provide sufficient information to enable participants to have an accurate understanding of the risks, fees, and other material costs they incur by participating in the FMI. All relevant rules and key procedures should be publicly disclosed.**

*KC 23.1: An FMI should adopt clear and comprehensive rules and procedures that are fully disclosed to participants. Relevant rules and key procedures should also be publicly disclosed.*

NSDL has laid down comprehensive Bye laws and Business Rules which are fully disclosed to the participants. The key procedures in form of circulars issued from time to time are also disclosed to the participants and publicly disclosed.

*KC 23.2: An FMI should disclose clear descriptions of the system's design and operations, as well as the FMI's and participants' rights and obligations, so that participants can assess the risks they would incur by participating in the FMI.*

The Rights and obligations are disclosed in the Bye laws and Business Rules. The circulars issued by NSDL and the agreements required to be executed are also disclosed to the participants which enables them to assess the risks they would incur by participating in the FMI.

*KC 23.3: An FMI should provide all necessary and appropriate documentation and training to facilitate participants' understanding of the FMI's rules and procedures and the risks they face from participating in the FMI.*

Training is provided to the Participant about the depository operations and systems which facilitates the Participants' understanding of the Business Rules and Bye Laws and the risks that the participant may face. The Participants' staff are also required to qualify a specially designed test to get certification on their understanding of the depository operations.

*KC 23.4: An FMI should publicly disclose its fees at the level of individual services it offers as well as its policies on any available discounts. The FMI should provide clear descriptions of priced services for comparability purposes.*

Charges of NSDL to the Business Partners are contained in the Business Rules which are publicly disclosed. Any change in pricing is notified to the Participants by way of circular.

*KC 23.5: An FMI should complete regularly and disclose publicly responses to the CPSS-IOSCO Disclosure framework for financial market infrastructures. An FMI also should, at a minimum, disclose basic data on transaction volumes and values.*

NSDL has published its response to the PFMI-IOSCO Disclosure framework in the website.

**Principle 24 : Disclosure of market data by trade repositories**

Not Applicable to NSDL