Principles for Financial Market Infrastructure Disclosure

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Compliance Status of Principles

Principle No.	Area	Principle	Classification	Applicability on FMIs i.e. CCs or Depositories	Compliance Status
1	General Organisation	Legal basis	Qualitative	CCs and Depositories	Yes
2	General Organisation	Governance	Qualitative	CCs and Depositories	Yes
3	General Organisation	Framework for the comprehensive management of risks	Qualitative	CCs and Depositories	Yes
4	Credit and liquidity risk management.	Credit Risk	Quantitative	CCs	Not Applicable
5	Credit and liquidity risk management.	Collateral	Quantitative	CCs	Not Applicable
6	Credit and liquidity risk management.	Margin	Quantitative	CCs	Not Applicable
7	Credit and liquidity risk management.	Liquidity Risk	Quantitative	CCs	Not Applicable
8	Settlement	Settlement Finality	Qualitative	CCs	Not Applicable
9	Settlement	Money Settlements	Qualitative	CCs	Not Applicable
10	Settlement	Physical deliveries	Qualitative	CCs	Not Applicable
11	Central securities depositories and exchange-of-value settlement systems	Central securities depositories	Qualitative	Depositories	Yes
12	Central securities depositories and exchange-of-value settlement systems	Exchange-of-value settlement systems	Qualitative and Quantitative	CCs	Not Applicable
13	Default management	Participant-default rules and procedures	Qualitative	CCs and Depositories	Yes

Principle No.	Area	Principle	Classification	Applicability on FMIs i.e. CCs or Depositories	Compliance Status
14	Default management	Segregation and portability	Qualitative and Quantitative	CCs	Not Applicable
15	General business and operational risk management	General business risk	Qualitative and Quantitative	CCs and Depositories	Yes
16	General business and operational risk management	Custody and investment risks	Qualitative and Quantitative	CCs and Depositories	Yes
17	General business and operational risk management	Operational risk	Qualitative and Quantitative	CCs and Depositories	Yes
18	Access	Access and Participation Requirements	Qualitative	CCs and Depositories	Yes
19	Access	Tiered participation arrangements	Qualitative and Quantitative	CCs and Depositories	Yes
20	Access	FMI links	Qualitative	CCs and Depositories	Yes
21	Efficiency	Efficiency and effectiveness	Qualitative	CCs and Depositories	Yes
22	Efficiency	Communication procedures and standards	Qualitative	CCs and Depositories	Yes
23	Transparency	Disclosure of rules, key procedures, and market data	Qualitative	CCs and Depositories	Yes
24	Transparency	Disclosure of market data by trade repositories	Not Applicable	Not Applicable	Not Applicable

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".

Further, SEBI vide its Circular No. SEBI/HO/MRD/MRD-PoD-3/P/CIR/2023/190 dated December 19, 2023 has advised the Depositories to carry out self-assessment of FMI Principles (also referred as PFMI) on a periodic basis and disclose the same on their websites. These principles have been classified as "Quantitative" and "Qualitative".

The periodicity of self-assessment and disclosure by the FMIs for "Quantitative" principles shall be on a Quarterly basis and "Qualitative" principles shall be on an annual basis as specified in the circular.
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. It is updated and published every year. The last disclosure was updated and published in January 2024. This disclosure is now reviewed and below modifications are made

Sr. No.	Summary of Change
1	A table containing the compliance status of the principles has been added.
2	Few modifications carried out in the General Background section.
3	Major modifications carried out in the below mentioned principles to align same with current practices and procedures being followed at NSDL. Principle 2 - KC 2.1 Principle 16 - KC 16.1 Principle 18 - KC 18.3 Principle 21 - KC 21.2 Principle 23 - KC 23.5
4	Minor modifications carried out in the below mentioned principles Principle 1 - All KCs, Principle 2 - KC 2.2, 2.3,2.4,2.5,2.6 and 2.7 Principle 3 - KC 3.1,3.2,3.4 Principle 11 - KC 11.1 to 11.5 Principle 13 - KC 13.2 Principle 15 - KC 15.3 and KC 15.5 Principle 16 - KC 16.2 and KC 16.4 Principle 17 - KC 17.1 to KC 17.7 Principle 18 - KC 18.1 to KC 18.2 Principle 19 - KC 19.1 to 19.4 Principle 20 - KC 20.1 to 20.3 Principle 21 - KC 21.3 Principle 23 - KC 23.1 to 23.4

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, one of the largest Depositories in the World, established in August 1996 has established a state-of-the-art infrastructure that handles most of the securities held and settled in dematerialized form in the Indian capital market. Although India had a vibrant capital market which is more than a century old, the paper-based settlement of trades caused substantial problems like bad delivery and delayed transfer of title, etc. The enactment of the Depositories Act in August 1996 paved the way for the establishment of NSDL.

Using innovative and flexible technology systems, NSDL works to support the investors and brokers in the capital market of the country. NSDL aims at ensuring the safety and soundness of Indian marketplaces by developing settlement solutions that increase efficiency, minimize risk and reduce costs. At NSDL, we play a central role in developing products and services that will continue to nurture the growing needs of the financial services industry.

NSDL provides a bouquet of services to investors, stockbrokers, custodians, issuer companies etc. through its nationwide network of Depository Partners.

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 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, as a depository operates under a 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 which provide a high degree of certainty for each material aspect of the activities. NSDL is registered as a depository with SEBI, which regulates the securities market in India.

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 of NSDL are approved by SEBI.

c. NSDL enter into agreement with its Participants, Issuers, RTA in accordance of Bye Laws & Business Rules of NSDL.

Above are consistent with the relevant laws and regulations.

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 has articulated the legal basis for its activities as a depository 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.

NSDL operates under the jurisdiction of SEBI as per SEBI approved regulations and bye laws. India has well founded legal system which provides high degree of certainty that the actions taken by NSDL as a depository under its rules, procedures and agreements that are enforceable. The said rules, procedures and agreements are enforceable under Indian Law. The actions, if any, taken by NSDL are subject to appeals before competent courts/ tribunal in India.

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 is conducting its business as a depository only in India. NSDL does not operate in multiple jurisdictions and therefore the conflict of laws across jurisdictions does not arise. Accordingly, this key consideration does not apply to NSDL.

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 has a state-of-the-art infrastructure that handles most of the securities held and settled in dematerialized form in the Indian capital market. It works to support the investors and brokers in the capital market using innovative and flexible technology systems.

The aim is to ensure safety and soundness of Indian marketplaces by developing settlement solutions that increase efficiency, minimize risk and reduce costs. We here at NSDL play a central role in developing products and services that will continue to nurture the growing needs of the financial services industry.

The financial stability of participants of NSDL is also ensured through continuous review of eligibility requirements including a minimum net worth requirement of Rs. 5 Cr with effect from February 23, 2024. NSDL has also obtained Business Risk Insurance coverage for any claims arising from negligence / errors / frauds of officials of NSDL and / or its Depository Participants. NSDL's Business Risk Insurance policy also covers the loss to a Beneficial Owner due to system failure or negligence or wrongful act by the employees of NSDL or its DPs

NSDL is working towards its vision to be the leader in digital transformation for Depositories and empower investor through its latest campaign "JaankarHiAsardaar" through various digital services and by employing robust and sophisticated technology and provide digital solutions at every step. An Investor Awareness Initiative named "Market Ka Eklavya" has also been launched by NSDL to keep the investors updated of the digital solutions provided by the Company.

The financial and operational processes are assessed by NSDL Internal auditors who place their Report before the Audit Committee, and the adequacy of Internal Financial Controls is also verified by external consultant on an annual basis.

Independent auditors conduct Annual System Audit and half-yearly Cyber Security Audits. The auditors' reports are reviewed and approved by Standing Committee on Technology (SCOT) and NSDL Board before submitting to SEBI.

NSDL provides bouquet of services to investors, stockbrokers, custodians, issuer companies etc. through its nationwide network of Depository Partners.

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.*

Corporate Governance Arrangements at NSDL:

NSDL has documented governance arrangements that provide clear and direct lines of responsibility and accountability. These arrangements are disclosed publicly by way of the corporate Governance Report published annually. NSDL's corporate governance structure complies with the requirements of the Companies Act, 2013, SEBI (Depositories and Participants) Regulations, 2018, Depositories Act 1996 and SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 as amended from time to time or any other Laws and Regulations applicable to the Company.

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.

NSDL has a well-documented policy for evaluating the performance of Directors and other Statutory Committees. The performance of MD & CEO of NSDL is reviewed and evaluated by the Board of Directors. At NSDL the Nomination and Remuneration Committee evaluates the performance of all KMPs and determines the amount of remuneration including performance based variable pay, if any, to be awarded.

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 non-Independent 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 non-independent directors in a depository. The board consists of people of integrity and possesses relevant expertise and required 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. The Management team of NSDL possess professional / technical qualifications, market / industry experience, relevant knowledge and expertise in the relevant area of operations as well as a high market standing. Nomination and Remuneration Committee recommends the appointment/removal of KMPs (Key Management Personnel) /Management to the Board of Directors. Board members and KMPs are required to be fit and proper person and follow code of conduct as prescribed under SEBI (Depositories and Participants) Regulations, 2018. To have the integrity necessary to discharge their responsibilities for the operation and risk management of the FMI, the Board members possess requisite qualifications and experience in each of the areas of capital markets, finance and accountancy, legal and regulatory practice, and technology.

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 therisk-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, it also includes responsibilities and accountability for risk decision and addresses decision making in crises and emergencies. NSDL has constituted a Risk Management Committee in accordance with SEBI guidelines. The governance structure implemented at NSDL provides sufficient authority, independence, resources and access to the board to the Risk-Management Team and internal control function, as per the guidelines stipulated by SEBI. The CRiO (Chief Risk Officer) of NSDL reports to the Risk Management Committee and the MD & CEO of NSDL.

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 and business rules related to relevant stakeholders are communicated by way of Circulars, Bye Laws, Business Rules, as per applicability.

All material changes & matters are disseminated on NSDL's website on a timely basis, as per the applicability of regulatory framework. Major events of the Board are disclosed in the Annual Report and uploaded on the website. The other material corporate announcements are also disclosed on NSDL's website.

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 well-documented Risk Management Framework (Policy), developedin line with the SEBI guidelines that comprehensively address the applicable risks *that arise in or are borne by the NSDL*. Further, the Risk Management Framework of NSDL is reviewed at a periodic frequency, as per the applicable regulatory guidelines.

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 audit report to NSDL. NSDL also conducts inspection of its participants on a periodic basis. NSDL's Bye Laws prescribes comprehensive provisions for taking disciplinary actions against errant DPs, which include actions like imposing penalties, suspension, expulsion and cancellation of agreement between NSDL and DPs.

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.

NSDL has devised wind-down plan in accordance with the SEBI guidelines, approved by Governing Board. The aforementioned documents are also reviewed at a periodical interval to align the same with the recent policies and practices.

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

Not Applicable to NSDL

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 defined the appropriate rules, procedures, and controls, including robust accounting practices, to safeguard the rights of securities issuers and holders, in line with the applicable regulatory requirements.

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. Further, w.r.t. Central or State Government Securities, NSDL carries out the reconciliation of balances held in the depository system with the balances as per SGL/CSGL accounts of NSDL maintained with RBI. In case of any discrepancies, the same is reported to RBI.

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

Controls are built in NSDL's depository system to ensure that transfer of securities is permitted only to the extent of credit balance of securities available in the demat account. Thus, no overdraft or debit balances in securities accounts can be created against the securities in the demat accounts in NSDL system.

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.

As per the extant regulatory provisions , NSDL maintains securities only in dematerialised form. Transfer of shares in physical form has been prohibited. NSDL provides dematerialisation facilities to investors to convert physical shares into 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. Furthermore, bye laws of NSDL specify that, in the event of any erroneous transaction having been affected on account of any error, mistake or negligence on the part of the Participant resulting in a negative balance in the account of any beneficial owner, NSDL may require the Participant to replenish the relevant securities forthwith. Operationally, NSDL has established various procedures through which the beneficial owners are informed and made aware about transactions or modifications in their demat account. e.g. SMS alerts for transactions and account modifications, free access to account information, transaction statements to dormant accounts etc. This is in addition to the transaction statements being sent by the DPs to their demat account holders on a monthly basis (if there is any transaction in that month) or half yearly basis (if there are no transactions during the half year). The DPs also inform the demat account holders if there is any modification in the demat account details like change in address, change in nomination, etc

Further, NSDL has also obtained a Business Risk Insurance Policy which covers losses to protect the assets against custody risk.

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.

SEBI (Depositories and Participants) Regulations, 2018 prescribes that separate accounts shall be opened by every Participant in the name of each of the beneficial owners and the securities of each beneficial owner shall be segregated and shall not be mixed up with the securities of other beneficial owners or with the participant's own securities. This also forms part of NSDL's bye laws. NSDL has adopted beneficial owner level accounting system, which ensures segregation of securities. NSDL maintains a separate demat account with a Depository Participant for its own investments and the Company's securities are segregated from securities of the Participant and other beneficial owners. The beneficial owner are free to close the demat account with one DP and open another demat account with other DP and transfer securities to such an account.

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. NSDL has clearly laid down the procedures to be followed in case of default by any DP as per applicable rules, regulations and bye laws.

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 holds 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 , 2025, NSDL's liquid net assets amount to 46.86 months' of current operating expenses. NSDL has well documented Wind Down Plan in place.

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 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. Further, the Net worth of NSDL gets reviewed at a periodical intervals. The 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.

NSDL does not hold any assets of the participants other than the security deposit and the Depository shall refund the security deposit to the Participant after a period of 3 years from the date of cancellation of the certificate of registration issued by SEBI or after resolving pending investor grievance, if any, against the Participant, to the satisfaction of the Depository, whichever is later.

Only in the case of government securities, NSDL holds the assets with other entity in SGL (Subsidiary Ledger Account) with RBI.

NSDL's own assets are invested, maintained and safeguarede in accordance with NSDL's investment policy framed by the board, as per the extant regulatory guidelines.

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, hence this key consideration is not applicable to NSDL.

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.

As per SEBI instructions, an Investment Committee was formed consisting of external members, which evaluates each investment/divestment proposals etc. The Committee meets at least twice in a year and/or as and when required. NSDL does not disclose its investment strategy to its Participants. NSDL normally invests in high quality liquid instruments which allows quick liquidation with little, if any, adverse price effect.

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 at functional levels to manage such operational risks. NSDL also conducts various operational risk identification activities in order to identify, assess, evaluate, mitigate, monitor, report and document 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 (Policy) of NSDL clearly defines the *roles and responsibilities for addressing the different types of risks (including operational risk)* and is also endorsed by the Governing Board of NSDL. The Risk Management Committee of the Board also reviews the Risk Management Framework periodically. to. NSDL's Systems, operational policies, procedures, and controls are reviewed, audited, and tested periodically and after significant changes.

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. The BCP/DR drills are also conducted on a periodic basis to test alternate operational reliability. 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 monitors the system capacity during the normal operation of its systems on a daily basis. NSDL also monitors and assesses capacity utilization for disk space, CPUs and memory utilization on a periodic basis. 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.

NSDL has also set the strict rules for granting authority to enter its offices and restricted areas and for controlling exit. NSDL office is housed in a building having multi layered physical security. Further, NSDL office regulates physical access through access control systems. The access to data centers, console room and network room is restricted and the entire office premises and data centers are under CCTV surveillance. Only personnel with authorized access can enter the premises and all Departments with confidential information are segregated from other Departments in the office.

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 1 hours 15 mins (30 mins + 45 mins) . 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 related 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. All DPs having a valid Certificate of Registration have fair and equitable access to the NSDL systems. The Eligibility criteria and the DPs access rights to the NSDL systems are periodically verified through Inspection and audits. Under the Indian structure of Depositories, NSDL does not have any indirect participants which have access to NSDL systems.

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 (eligibility) 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 on NSDL's website. These eligibility requirements, as stipulated in the NSDL's bye laws and business rules, undergo routine review and amendment as part of standard risk management protocols

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

SEBI Depositories and Participant Regulations, 2018, NSDL's Bye Laws and Business Rules as amended from time to time provides for Participant eligibility requirements and various compliance requirements to be followed by the Participants on an ongoing basis. Moreover, circulars are also issued to Participants prescribing guidelines and advising them to ensure compliance.

NSDL's Bye Laws and Business Rules and the circulars issued from time to time prescribe monitoring mechanisms which includes conducting inspection of Participants, Internal audits, submission of reports on periodic basis etc Further, regulatory actions for the non-compliances observed are also provided in the NSDL Bye Laws and Business Rules and same are imposed with the approval of the appropriate authorities. NSDL Bye Laws and Business Rules also lay down procedures for facilitating the orderly exit of a participant that breaches or no longer meets the participation requirements and same are published and updated on the NSDL website for information of public at large.

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.

KC 19.2: An FMI should identify material dependencies between direct and indirect participants that might affect the FMI.

KC 19.3: An FMI should identify indirect participants responsible for a significant proportion of transactions processed by the FMI and indirect participants whose transaction volumes or values are large relative to the capacity of the direct participants through which they access the FMI in order to manage the risks arising from these transactions.

KC 19.4: An FMI should regularly review risks arising from tiered participation arrangements and should take mitigating action when appropriate

Response for principle -19.

NSDL has adopted a segregated account structure whereby it maintains the accounts at the beneficial owner level. The same is as per the regulatory framework overlooking the depositories activities in India. Depository Participants (DPs) 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 regulated entities which have well-founded legal basis and the Risk Management Framework, permissible under the regulatory requirements. NSDL has established links with the entities, backed by an MoU which addresses the risks arising out of such links. NSDL has also implemented appropriate risk mitigation measures in the form of regular monitoring and periodic audits i.e. system audit, cyber security audits and VAPT audit.

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.

NSDL has established links with regulated entities which has well-founded legal basis in India. SEBI (Depositories and Participants) Regulations, 2018 requires NSDL to establish a network through which continuous electronic means of communications are established between the Depository, Participants, Issuers/Issuers' agents are secure against unauthorized entry or access. The relevant FMIs are also subjected to PFMI principles. The MoU are also executed with the other entities for establishing the link.

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.

The depository system in India does not permit overdraft or credit facility. The NSDL depository system has adequate controls to ensure that transfer of securities is permitted only to the extent of credit balance of securities available in account. Thus, there is no risk on account of credit extension between CSDs

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 standards w.r.t to client servicing The NSDL's business performance is reviewed periodically by the Management & Governing Board and also reported to the applicable stakeholders.

Further, requirements and specifications for products and services are clearly defined and prioritized to ensure delivery of same within the defined timelines. These are aligned with the overall business objectives and strategies.

Risk-management expectations: NSDL has a well-defined, board approved Risk Management Framework (Policy) which clearly sets out the risk appetites and risk management expectations at process the company level.
Further, NSDL has constituted the Risk Management Committee in line with SEBI's guidelines to ensure that appropriate methodology, processes and

systems are in place to monitor and evaluate risks associated with the business of the Company.

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

NSDL has established mechanisms for the regular review of its efficiency and effectiveness As a first level of defense, the efficiency and effectiveness of operating processes are being monitored by respective vertical heads on daily basis. The different types of executive level committee meetings are conducted in order to review the challenges, efficiency and effectiveness of the different products and processes, as per applicability. Further, periodic MIS, reports and quantitative business and performance matrix are being presented to and reviewed by the Senior Management including MD & CEO. The board level committee and internal external audits are conducted to review the efficiency and effectiveness of the different processes.

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 [governed by the Depositories Act, 1996, SEBI (Depositories and Participants) Regulations, 2018 and SEBI circulars issued from time to time] which are fully disclosed to the participants and also publicly available on NSDL’s website. The key procedures in the form of circulars issued from time to time by NSDL are also communicated 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 design and functioning of systems are detailed in the NSDL’s bye laws and Operating Instructions are accessible to all stakeholders through NSDL's website. The Rights and obligations of participants are also 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.

Periodic Training(s) are conducted for 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 (i.e. NISM-Series-VI: Depository Operations Certification Examination certificate) on their understanding of the depository operations. Furthermore, NSDL has published a Frequently Asked Question (FAQ) on its website to facilitate understanding of Depository Participants.

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.

Charge / Fees structure for availing different services / facilities provided by NSDL are mentioned in the Business Rules, which are periodically communicated to the Business Partners and are also publicly disclosed on NSDL's website. Any change in pricing is notified to the Participants by way of circular and also disclosed on NSDL's website.

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. Annual PFMI disclosures is published for qualitative information as per the TAT defined by SEBI whereas quantitative disclosures are done on Quarterly basis and both the disclosures are uploaded as per defined time on NSDL website.

NSDL periodically discloses the information responding to CPSS-IOSCO's Disclosure framework for financial market infrastructures. The quantitative principles are disclosed on quarterly basis and self-assessment report of quantitative and qualitative principles applicable to NSDL are disclosed on NSDL's website, as per the timelines prescribed by regulator. Further, NSDL's website provides information on various important parameters like number of live companies, number of Depository Participants, combined number of DP locations, investor accounts, value and volume of securities held in demat form, number of ISIN as well as Net worth and operating expenses etc. of NSDL.

Principle 24 : Disclosure of market data by trade repositories

Not Applicable to NSDL