

**TERMS AND CONDITIONS OF APPOINTMENT OF PUBLIC INTEREST DIRECTORS/ INDEPENDENT  
DIRECTORS**

Owner: Legal and Secretarial Department

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## **TERMS AND CONDITIONS OF APPOINTMENT OF PUBLIC INTEREST DIRECTORS/ INDEPENDENT DIRECTORS**

### **1. Appointment:**

Appointment as a Public Interest Director (PID) on the Governing Board of Central Depository Services (India) Limited ('CDSL/Company') shall be for a tenure of three (3) years, extendable by another term of three (3) years, subject to the performance review in the manner as may be specified by SEBI and SEBI (Depositories & Participants) Regulations, 2018 ("D&P Regulations 2018"). Independent Directors/ PIDs shall not be liable to retire by rotation and their appointment shall be governed by the provisions of the Companies Act 2013 ("the Act"), D&P Regulations 2018, SEBI (Listing Obligations and Disclosure requirements) Regulations, 2015 ("SEBI LODR") and Articles of Association of the Company and other applicable laws.

### **2. Committees:**

The Company has duly constituted various statutory and voluntary Committees under the provisions of the Act, SEBI LODR, D&P Regulations 2018 and SEBI circulars thereunder, and other applicable laws. Independent Directors/ PIDs may be appointed as a member/chairperson in any of the Committees as per the decision of the Governing Board and guided by directions of SEBI from time to time.

### **3. Role of Public Interest Director:**

Independent Directors/ PIDs are expected to bring objectivity and independence of view to the Board/Committees, if any, and to help provide the Governing Board with insight and effective leadership in relation to the Company's strategy, performance and risk management as well as ensuring high standards of financial probity and Corporate Governance. You are also expected to observe and comply with applicable law, the charter documents of the Company and the rules, regulations and policies of the Company, in relation to your directorship and the business of the Company.

As per the provisions of the Act, the Company shall give you advance notice of minimum of 7 days before every Board and Committee meeting. A meeting of the Board/ Committee may be called at shorter notice to transact urgent business.

Independent Directors/ PIDs shall meet separately, at least once in six months to exchange views on critical issues.

**The terms of reference of PID meeting are as under:**

1. Help in bringing an independent judgment to bear on the Board's deliberations especially on issues of strategy, performance, risk management, resources, key appointments and standards of conduct;
2. Bring an objective view in the evaluation of the performance of Board and Management;
3. Scrutinize the performance of Management in meeting agreed goals and objectives and monitor the reporting of performance;
4. Satisfy themselves on the integrity of financial information and that financial controls and the systems of risk management are robust and defensible;
5. Safeguard the interests of all stakeholders, particularly the minority shareholders;
6. Balance the conflicting interest of the stakeholders; CONVENIENT • DEPENDABLE • SECURE.
7. Determine appropriate levels of remuneration of Executive Directors, Key Managerial Personnel and senior management and have a prime role in appointing and where necessary recommend removal of Executive Directors, Key Managerial Personnel and Senior Management;
8. Moderate and arbitrate in the interest of the Company as a whole, in situations of conflict between management and Shareholder's interest;
9. Review the performance of Non-Independent Directors and the Board as a whole and its Committees;
10. Review the performance of the Chairperson of the Company, considering the views of Executive Directors and Non-executive Directors;
11. Assess the quality, quantity and timeliness of flow of information between the Company management and the Board that is necessary for the Board to effectively and reasonably perform their duties;
12. Reviewing the status of compliance with SEBI letters/ circulars;

13. Reviewing the functioning of regulatory departments including the adequacy of resources dedicated to regulatory functions, etc.;
14. Preparing a report on the working of the Committees of which they are member and circulate the same to other PIDs. The consolidated report in this regard shall be submitted to the governing Board of the Company;
15. Identifying the important issues which may involve conflict of interest for the Company or may have significant impact on the market and report the same to SEBI, from time to time;
16. Exchange views on critical issues;
17. PIDs should have regular oversight on observations of SEBI's inspections particularly on issues related to-
  - i. Governance standards – Conflict of interest
  - ii. Technology and Cyber Security issues
  - iii. System Audit & Cyber Security Audit observations
18. Technology related issues are important in the MII space and they may be reviewed by PIDs preferably on a quarterly basis;
19. PIDs should be proactive in identifying any issues concerning functioning of MII and report the same to SEBI. PIDs should ensure all regulatory communications / letter from SEBI are placed before board with comments / report of MD;
20. PIDs to ensure that appointments of MD / CEO be held within specified timelines. Identifications of KMPs be closely scrutinized as per the laid down procedure and exceptions should be brought to the notice of SEBI;
21. PIDs to independently evaluate investments made by MIIs into unrelated areas;
22. PID should take proactive part in deliberations of different Committees and steer their functioning;
23. PIDs to have a mechanism to have a regular review of regulatory requirements. They may also have a regular interaction with SEBI regarding any clarifications, if required;
24. PIDs should evaluate the profitability margins of MIIs. Adequacy of resource allocation (both financial & human) towards regulatory compliances to be ensured. It is observed that the EBITDA margins and PAT margins of MIIs are among the highest in the country.

#### 4. Functions, Responsibilities and Duties:

##### 4.1 Functions:

a. **To review the Company's strategy, the annual financial plan and monitor the Company's performance:**

The primary role of the members of the Governing Board is to exercise their business judgment to act in what they believe to be the best interests of the Company and its shareholders. It is the duty of the Governing Board to ensure that the Management performs with competence and values to achieve the objectives of the Company. Generally, the Governing Board meets once a quarter. The quarterly meeting of the Governing Board includes updates on the business, financial and business-enabler functions, and discussions on such updates. The Audit Committee of the Governing Board reviews the Company's financials and recommends the same to the Board for its acceptance.

b. **To review management performance and compensation:**

The Nominations and Remuneration Committee of the Board evaluates the performance of the Senior Management of the Company and recommends their compensation for the ensuing year to the Governing Board.

c. **To advice and counsel the Management:**

The Governing Board should be composed of individuals whose knowledge, background, experience and judgment are valuable to the Company. They should also be capable of providing advice to the Senior Management of the Company. Members of the Governing Board have full access to the Senior Management and other employees as well as to the Company's records and documents. The Governing Board may also seek legal or other expert advice from a source independent of the Management.

d. **To oversee and ensure the integrity of financial information and legal compliance:**

The Audit Committee of the Governing Board oversees the Company's accounting and financial reporting processes and the audit of the Company's financial statements and assists the Governing Board in the overseeing of

- (1) the integrity of the Company's financial statements,
- (2) the Company's compliance with legal and regulatory requirements,
- (3) the independent auditor's qualifications, independence and performance,
- (4) the Company's internal accounting and financial controls.

#### **4.2 Responsibilities:**

Directors have the same general legal responsibilities to the Company as that of any other Director. The Governing Board, as a whole, is collectively responsible for ensuring the success of the Company by directing and supervising the Company's affairs.

The Governing Board:

- a) provides entrepreneurial leadership of the Company within a framework of prudent and effective controls which enable risk to be assessed and managed;
- b) sets the Company's strategic aims, ensures that the necessary financial and human resource requirements are in place for the Company to meet its objectives, and reviews management performance;
- c) sets the Company's values and standards, ensures that its obligations to its Shareholders and others are understood and met by the Company.

In addition to the criteria mentioned in the previous sections, the role of Directors also includes tracking, reviewing and providing feedback on: Strategy, Performance, Risk, Employees, and Stakeholders.

#### **4.3 Duties:**

- a) Undertake the appropriate induction into the Governing Board and regularly update and refresh your skills, knowledge and familiarity with the Company;
- b) Enroll yourself into an online data bank and pass an online self-assessment proficiency test conducted by the Indian Institute of Corporate Affairs, within stipulated timelines, as may be applicable;
- c) Seek appropriate clarification and, where necessary, seek and follow appropriate professional advice from external experts at the expense of the Company;

- d) Report concerns about unethical behavior, actual or suspected fraud or violation of the Company's Code of Conduct and Ethics;
- e) Actively and constructively participate in the Board committees of the Governing Board in which you may be a member or the Chairperson;
- f) Ensure that the whistleblower function of the Company is functioning adequately;

This is by no means an exhaustive list but it gives an indication of Functions, Responsibilities and Duties of Directors.

#### **5. Directors Familiarization Program:**

The Company conducts Familiarization Program for Independent Directors/ PIDs about their roles, rights, responsibilities in the company, nature of the industry in which the company operates, business model of the company, etc., through various initiatives. However, the Company extends the same for all the new Directors including the PID and other Executive & Non-Executive Directors.

#### **6. Availability of Directors and Officers (D & O) Insurance:**

The Company has Directors' and Officers' ("D&O") liability insurance, and it is intended to maintain such cover for the full term of the Appointment.

#### **7. Remuneration & Expenses:**

Directors are entitled to a sitting fee for attending each meeting of the Board and Committee (if member of any) as per the Company's policy, as amended from time to time. Further, the Company shall reimburse the out-of-pocket expenses incurred by a Director while performing his/her role as a Director of the Company. This could include reasonable expenditure incurred by the Director for attending Board/ Board committee meetings, general meetings, court convened meetings, meetings with shareholders/ creditors/ management, site visits, induction and training (organized by the Company for Directors) and in obtaining professional advice from independent advisors in furtherance of his/her duties as a director.

Note: As per regulation 25(9) of the D&P Regulation, Public Interest Directors shall be remunerated only by way of sitting fees as admissible to Independent Director in the Companies Act.

#### 8. **Code of Conduct:**

The Governing Board has put in place a Code of Conduct Policy. All the Independent Directors / PIDs shall comply with the said Code. The Independent Directors/ PIDs are also required to comply with Company's Code for Prevention of Insider Trading, the Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 2015 and the relevant provision under the Act, SEBI LODR, and D&P Regulation 2018. Director's obligation to maintain confidentiality shall survive even after termination or cessation of directorship with the Company.

#### 9. **Evaluation:**

The performance evaluation of the Independent Directors/ PIDs is subject to provisions of the Act, SEBI LODR, D&P Regulation 2018 and SEBI circular on performance review of PIDs dated February 5, 2019. All Independent Directors/ PIDs shall be subjected to internal evaluation as well as external evaluation, carrying equal weightage.

**Internal evaluation:** All the Governing Board members shall evaluate the performance of each Independent Directors/ PIDs, on an annual basis at the end of every financial year.

**External evaluation:** Independent Directors/ PIDs shall also be subject to external evaluation during their last year of the term in the Company, by a management or a human resources consulting firm.

#### 10. **Conflict of Interest:**

The Governing Board of the Company shall also take into consideration provisions of Clause 2(d) of Schedule II Part C of SEBI (Depositories and Participants) Regulations, 2018 under the head



'Public Interest Director' and conflict of interest, if any, of any Independent Directors/ PIDs shall be disclosed to SEBI by the Governing Board with their comments/ views.

#### **11. Confidentiality:**

Unless specifically authorized by the Company, the Independent Director/ PID shall not disclose Company and business information to public constituencies such as the media, the financial community, employees, members, agents etc.

Independent Directors/ PIDs obligation to maintain confidentiality shall survive even after termination or cessation of directorship with the Company.

#### **12. Miscellaneous –**

1. Independent Directors/ PIDs shall give an annual declaration as required under the provision of section 149(7) of the Companies Act, 2013 and the rules made thereunder.
2. An Independent Director/ PID shall not serve as an Independent Director in more than seven listed companies as may be stipulated by the Listing Agreement or any other law of the land, for the time being in force.
3. Further, an Independent Director/ PID who is serving as a whole-time director in any listed company shall not serve as an Independent director/PID in more than three listed companies or such number of listed companies as may be stipulated by the Listing Agreement or any other law of the land, for the time being in force

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