

Central Depository Services (India) Limited



Disclosures on Compliance with Principles for Financial Market Infrastructures Annual Qualitative Disclosures for FY 2023-24

May 2024

Responding Institution : Central Depository Services (India) Limited

Jurisdiction in which the FMI operates : India

Authority(ies) regulating, supervising or overseeing the FMI : Securities and Exchange Board of India

The date of disclosure : 30th May, 2024

This disclosure is made available at cdslindia.com

For further information, you may contact at riskdepartment@cdslindia.com

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1. EXECUTIVE SUMMARY

Central Depository Services (India) Ltd. (CDSL) was incorporated on December 12, 1997 and commenced its operations as a Depository under SEBI (Depositories and Participants) Regulations, 1996 on February 8, 1999.

As a Depository, CDSL facilitates holding of securities in electronic form and enables securities transactions to be processed by book entry. The services provided by a Depository are accessible to the public and play a crucial role in transforming the settlement systems, aiming to streamline processes, enhance transparency, and improve efficiency of the security market. Thus, along with Stock Exchanges and Clearing Corporations which provide electronic platform for nation-wide trading in securities, Depositories which enable settlement of electronic balances of securities are considered as one of the systemically important Market Infrastructure Institutions (MIIs).

CDSL is the leading securities Depository in India by number of Beneficial Owner (BO) accounts and by the total number of registered Depository Participants (DPs) as at the end of fiscal 2024. CDSL's ultimate aspiration is to empower every retail & institutional investor, DP, Issuers, to participate in the Indian Capital Markets with tools and services that enable them to be self-sufficient or 'Atmanirbhar'.

As on March 2024, CDSL maintains and services more than 115 million Beneficial Owner accounts in the country. CDSL today has a huge network of business partners of more than 580 Depository Participants (DPs) servicing BOs through more than 17,000 locations.

2. GENERAL BACKGROUND

CDSL offers Depository services to investors and other intermediaries like Exchanges, Clearing Corporations, Stockbrokers, Custodians, Issuer companies, Registrar and Transfer Agents (RTAs), other Depository, etc. The investors open demat accounts in CDSL system through Depository Participants (DPs) who are registered intermediaries and act as agents of CDSL.

Following are some of the important services being offered by CDSL:

- a. Dematerialization of securities:** – A wide range of securities including equity shares, preference shares, mutual fund units, debt instruments, government securities, commercial papers, Alternative Investment Fund (AIF) units, Electronic Gold Receipts (EGRs) etc. can be held in electronic form in demat accounts maintained with CDSL. Existing physical certificates can also be converted into electronic balances and vice versa. Existing AIF units can be converted into demat form through corporate action mechanism.
- b. Transfer of securities:** – The beneficial ownership can be transferred by execution of transaction in the depository system. CDSL offers facility to record transfer of securities pursuant to market or off-market transactions. The AIF units held in the demat account can be transferred to other account with the approval of the Investment Managers (IMs).
- c. Processing of Corporate Actions and allotment of securities:** –
 - The non-cash corporate actions such as rights issue, bonus issue, split / consolidation, conversion, effecting scheme of merger or amalgamation, etc. on securities held in demat accounts are processed by CDSL and appropriate effect in applicable ratio is given in the demat accounts of eligible beneficial owners.
 - In case of cash corporate actions, the information about beneficial owners eligible to receive such cash corporate action is given to the RTA of the Issuer Company which in turn distributes the cash corporate action.
 - In an Initial Public offering (IPO) or Follow on Public Offer (FPO), the allotment of securities in demat form is processed by CDSL on the basis of information received from the Issuer Company.
 - CDSL also provides facility of pre-verification of Beneficial Owner details as received by the Issuer Company in application for IPO / FPO to ensure seamless processing of allotments.
 - CDSL provides facility to convert the existing AIF units into investor demat accounts through Corporate Action Mechanism. Allotment of AIF units is done through Corporate Action Mechanism.
- d. Pledging of securities:** CDSL enables its demat account holders to pledge the securities balances held in his/her demat account in favour of a pledgee demat account holder. After creation of pledge in the Depository system, although the beneficial ownership remains with the pledger demat account holder, the control vests with the pledgee demat account holder. CDSL also enables unpledge or invocation of pledge. AIF units can be pledged after approved by Investment Manager (IMs).

- e. **Other services:** CDSL also offers other ancillary services like e-voting, e-DIS, easi (Electronic Access to Security Information), easiest (Electronic Access to Security Information and Execution of Secured Transaction), eCAS (Electronic Consolidated Account Statement).

2.1 Legal and Regulatory Framework

CDSL is a public limited company incorporated under the Companies Act, 1956 and registered under Section 12(1A) of the Securities and Exchange Board of India Act, 1992. CDSL is listed on National Stock Exchange of India Ltd (NSE) and is required to be compliant with SEBI listing requirements. The depository operations of CDSL are mainly governed under Depositories Act, 1996, SEBI (Depositories and Participants) Regulations, 2018 (as amended from time to time) and various directives issued by SEBI/ relevant authority from time to time. CDSL's bye laws and Operating Instructions for Depository Participants and Registrar & Transfer Agents (RTA) provides the basis for functioning as a Depository.

2.2 System Design and Operations

The CDSL DP operating instructions and CDSL RTA operating instructions provide an insight into processing of various types of transactions. These operating instructions are available on the following links:

<https://www.cdslindia.com/DP/OperatingInstructions.html>

<https://www.cdslindia.com/RTA/OperatingInstructions.html>

3. PRINCIPLES RELATED TO CSD

The Committee on Payment and Settlement System (CPSS) and the International Organization of Securities Commissions (IOSCO) report on Principles for Financial Market Infrastructures (PFMI) provides 24 Principles for FMIs. However, it recognizes that although most principles are applicable to all types of FMIs covered by the report, a few principles are relevant to specific types of FMIs. Accordingly, the Principles which are generally applicable to Central Securities Depositories (CSDs) are listed below.

The Indian legal framework governing CSDs has some unique features like provision for multiple depositories for same type of securities. Indian CSDs do not perform functions of a CCP and only facilitate securities settlement. Hence, certain principles related to CSDs are not applicable in case of Indian CSD.

SN	Principles		Applicability to Depositories	Classification
1	Principle 1	Legal Basis	Applicable	Qualitative
2	Principle 2	Governance	Applicable	Qualitative
3	Principle 3	Framework for comprehensive management of risk	Applicable	Qualitative
4	Principle 4	Credit risk	Not Applicable	Quantitative
5	Principle 5	Collateral	Not Applicable	Quantitative
6	Principle 6	Margin	Not Applicable	Quantitative
7	Principle 7	Liquidity Risk	Not Applicable	Quantitative
8	Principle 8	Settlement finality	Not Applicable	Qualitative
9	Principle 9	Money settlements	Not Applicable	Qualitative
10	Principle 10	Physical deliveries	Not Applicable	Qualitative
11	Principle 11	Central Securities Depositories	Applicable	Qualitative
12	Principle 12	Exchange-of-value settlement systems	Not Applicable	Quantitative and Qualitative
13	Principle 13	Participant default rules and procedures	Applicable	Qualitative
14	Principle 14	Segregation and portability	Not Applicable	Quantitative and Qualitative
15	Principle 15	General business risk	Applicable	Quantitative and Qualitative
16	Principle 16*	Custody and investment risk	Applicable	Quantitative and Qualitative
17	Principle 17*	Operational risk	Applicable	Quantitative and Qualitative
18	Principle 18	Access and participation requirements	Applicable	Qualitative
19	Principle 19*	Tiered participation requirements	Applicable	Quantitative and Qualitative
20	Principle 20	FMI Links	Applicable	Qualitative
21	Principle 21	Efficiency and effectiveness	Applicable	Qualitative
22	Principle 22	Communication procedures and std.	Applicable	Qualitative
23	Principle 23	Disclosure of rules, key procedures and market data	Applicable	Qualitative
24	Principle 24	Disclosure of market data by trade repositories	Not Applicable	

** For these PFMI principles, Depositories have to make Qualitative Disclosures only.*

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.

Key Consideration 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.

CDSL is a Central Security Depository regulated within the jurisdiction of the Securities and Exchange Board of India (SEBI). Material activities performed by CDSL, and the applicable legal framework are identified as follows:

1. Section 2(m) of Depositories Act, 1996: Services connected with recording of allotment of securities or transfer of ownership of securities in the record of a depository.
2. Section 10 of the Depositories Act, 1996: Depository deemed to be registered owner for effecting the transfer of ownership of securities on behalf of a beneficial owner.
3. Section 10(3) of the Depositories Act, 1996: Safeguarding entitlement of beneficial owner's rights and benefits in respect of securities held by a depository.
4. Section 2(55) of Companies Act, 2013 states that every person holding equity shares of company and whose name is entered as beneficial owner in the records of the depository shall mean a member of the concerned company.
5. Section 46(4) of Companies Act 2013, states that where a share is held in depository form, the record of the depository is the prima facie evidence of the interest of the beneficial owner.
6. Section 59(4) of Companies Act 2013, states that where the transfer of securities is in contravention of any of the provisions of the Securities Contracts (Regulation) Act, 1956, the Securities and Exchange Board of India Act, 1992 or this Act or any other law for the time being in force, the Tribunal may, on an application made by the depository, company, depository participant, the holder of the securities or the Securities and Exchange Board, direct any company or a depository to set right the contravention and rectify its register or records concerned
7. Section 88(3) of the Companies Act, 2013 states that the register and index of beneficial owners maintained by a depository under section 11 of the Depositories Act, 1996, shall be deemed to be the corresponding register and index for the purposes of this Act.

SEBI (Depositories and Participants) Regulations, 2018 requires Depositories to comply with the provisions of the Securities and Exchange Board of India Act, 1992, bye laws, Agreements, and these regulations. Further, to facilitate the activities of the depositories, in addition to the provisions specified in the Depositories Act, 1996, certain provisions have already been incorporated in various sections of the Companies Act, 2013.

Bye laws of CDSL provide the required legal framework on various material aspects relating to Depository Participants, beneficial owners, clearing corporations and issuers such as Admission of DPs, Rights and obligations of DPs and beneficial owners, Settlement, Pledge and hypothecation facility, Safeguarding interests of beneficial owners and DPs, etc.

Key Consideration 1.2:

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

The bye laws of CDSL are formulated in accordance with the applicable legal framework and are approved by SEBI. The bye laws are updated as and when required in accordance with the regulatory updates and requirements which are tracked by the Legal and Regulatory Department of CDSL. The operations of DP & Issuer / RTA are carried out as per the instructions, specifications, and guidelines, known as 'Operating Instructions', as approved by SEBI.

Any amendments in the bye laws are vetted by the legal advisers and then placed before the CDSL Board of Directors for their approval and subsequently sent to SEBI for approval. Any amendment to the Operating Instructions is approved as per the internal approval process and then sent to SEBI for approval before the same is given effect by CDSL.

Contracts with Depositories in which the relevant department of CDSL needs legal advice and clarity on the legal aspect and clauses of the agreement are vetted by the Legal Department after which the duly reviewed agreement is executed by the relevant department of CDSL internally with the opposite party/vendor.

CDSL seeks legal opinion from independent legal experts/advisors where external validation is required.

Key Consideration 1.3:

An FMI should be able to articulate the legal basis for its activities to relevant authorities, participants, and, where relevant, participants' customers, clearly and understandably.

CDSL has amply and clearly articulated bye laws, policies, Operating Instructions, and agreements for all relevant stakeholders including participants, issuers, and RTAs. The bye laws and Operating Instructions are sent to SEBI for seeking approval at the time of modification. The bye laws of CDSL and Operating Instructions are also available on CDSL's website for the perusal of stakeholders and the general public at large. The amendments are notified to all stakeholders via communiques uploaded on the CDSL website. The Communiqués issued by CDSL have the same force and effect as the bye laws and the Operating Instructions.

Key Consideration 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 void, reversed, or subject to stays.

CDSL operates under the jurisdiction of SEBI as per SEBI approved bye laws. Any amendments in the bye laws and Operating Instructions are approved by SEBI. Legal opinion is obtained from independent legal advisors wherever required but is necessarily taken for amendment to bye laws and then placed before the CDSL Board of Directors for approval before sending to SEBI.

Any legal proceedings/Litigations filed against CDSL are monitored by the Legal Department from time to time and internal policies are in place which define the criteria for the identification of possible material claims/financial implications.

Key Consideration 1.5:

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

All the operations of CDSL are within Indian jurisdiction and it does not operate in multiple jurisdictions.

Therefore, this key consideration does not apply to CDSL.

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.

Key Consideration 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.

CDSL's vision is dematerialization and digitization of all key assets built on a robust platform for its safe, secure and convenient custody & transfer for empowering a self-sufficient investor environment. Its aim is to not only provide traditional Depository services but continue to work to widen the spectrum for market participants and provide secured custody and transfers all dematerialized assets. CDSL is committed to supporting and ensuring efficiency of markets to enable safe holding and transactions of all dematerialized securities in the Indian Capital Markets.

The aim is to ensure safety and efficiency of CDSL's operations to enable safe holding and transactions of all dematerialized securities.

CDSL is working towards its vision to be the leader in digital transformation for Depositories and empower investor to become 'Atmanirbhar Niveshak' through various digital services and by employing robust and sophisticated technology and provide digital solutions at every step. Processes are automated on a continuous basis and safety of operations is achieved through well-laid out, robust and secure IT infrastructure. CDSL's Business Continuity Management System and its Information Security Management System have received ISO 22301:2019 and ISO 27001:2022 certifications respectively.

The financial and operational processes are assessed by CDSL's Internal and Concurrent auditors who place their Report before the Audit Committee. 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 CDSL Board before submitting to SEBI.

Periodic risk assessment of systems and operations of CDSL is conducted. Risk Management Committee has been incorporated as per SEBI guidelines to address any Risk related issues identified.

Financial stability - Net worth of CDSL as on 31st March 2024 stood at Rs. 1041.03 Cr (calculated in accordance with the Clause 15 of the Securities and Exchange Board of India (Depository and Participants) Regulations, 2018.) against the minimum statutory requirement of Rs. 100 Cr.

The financial stability of participants of CDSL 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. Insurance cover has been obtained for any claims arising from negligence / errors / frauds of officials of CDSL and / or its Depository Participants. CDSL has

also obtained insurance to cover loss to a Beneficial Owner due to system failure or the negligence or wrongful act by the employees of CDSL or its DPs.

Key Consideration 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:

CDSL is a public limited company under Companies Act, 2013 and is listed on the National Stock Exchange of India (NSE). Its 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.

CDSL has established a Governance Framework consisting of various policies. These policies which include the following are also available on CDSL's website:

- Code of Conduct for directors and senior management
- Terms and conditions for appointment of Public Interest Directors / Independent Directors
- CDSL Related party transactions policy
- Policy on determination and disclosure of material events
- Code of practice and procedure for Fair disclosures of UPSI
- Policy on outsourcing activities
- Dividend distribution policy
- Anti-bribery and anti-corruption policy
- Policy on determining material subsidiary.
- Policy on unauthentic news and rumours / social media policy
- Web archival policy
- Whistle blower policy
- Preservation of Document policy
- Nomination and remuneration policy
- Board evaluation policy

In addition, CDSL has laid out the below mentioned policies which are accessible to the employees of the Company:

- Information and Data Sharing policy
- Policy on Prevention of Sexual Harassment (PoSH) of Women at Workplace

The Board of Directors are assisted by various statutory committees formulated under applicable Acts/ Regulations. These Committees include the following:

- Nomination and Remuneration Committee (NRC)
- Member Committee
- Standing Committee on Technology (SCOT)

- Regulatory Oversight Committee (ROC)
- Risk Management Committee (RMC)
- Audit Committee
- Corporate Social Responsibility Committee (CSR Committee)
- Stakeholders Relationship Committee

Code of Conduct for directors and key management personnel

Every director of CDSL has to abide by the Code of Conduct. Every director and key management personnel of CDSL has to abide by the Code of Ethics and shall satisfy the ‘fit and proper’ person criteria at all times.

Roles and Responsibilities of Directors:

CDSL’s Board of Directors are professionals having expertise in diverse fields. The Non-Independent Directors and Public Interest Directors on the Governing Board represent interest of shareholders as well as interest of the investors in general. Under the supervision and guidance of Board of Directors, the MD & CEO is delegated with supervision of review and management of routine operations of CDSL. MD & CEO is assisted by an Executive Management Committee to ensure smooth and efficient functioning of operations. The Executive Management Committee consists of the senior leadership in the Company, representing all the Departments of the Depository. The roles & responsibilities of Directors are in compliance with the Companies Act, 2013 and rules made thereunder or any other law or regulations as applicable.

Disclosures on Corporate Governance:

CDSL files quarterly Corporate Governance Reports on the stock exchange (NSE) and publishes the same on its website.

A report on corporate governance also forms part of the Annual Report, which is sent to all the shareholders. It is also published on CDSL website. The relevant disclosures are communicated to shareholders and to relevant authorities in adequate and timely manner.

CDSL periodically conducts analyst / investor conference calls attended by the management of the Company. Transcript and audio recording links of these calls are published on the stock exchange (NSE) platform and CDSL’s website.

Key Consideration 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 & Responsibilities of Board of Directors:

The Board of Directors of CDSL have a responsibility to decide on important management matters and to ensure the operations of CDSL are carried out in compliance with applicable

Acts, Rules and Regulations. Various committees consisting of experts in the capital markets, finance and accountancy, legal and regulatory practice, technology, risk management, and management or administration are formulated to assist Board of Directors in reviewing several functions specifically.

The Board of Directors are responsible for ensuring the efficient and smooth running of operations, evaluating effectiveness of internal controls and reviewing the risk profile to achieve goals and objectives of the Company.

Duties and responsibilities of Board of Directors are laid down in accordance with the requirements of the Companies Act, 2013 and SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

Managing Conflict of Interest:

Each Director on the Board of Directors is subject to the applicable laws and regulations regarding conflict of interest between themselves and CDSL. Directors with a special interest in the Agenda Item of the Board meeting does not participate and recuse themselves from that particular Agenda item. Further, the Directors provide declaration on an annual basis on the Conflict-of-Interest Policy.

Every Director is required to disclose his/her interest and shareholding including that of his/her close relatives in other companies every year and as and when he/she becomes interested in other companies. The Board of Directors and Key Managerial Personnel (KMP) are also required to give a declaration every year that they continue to be a 'fit and proper' person.

Performance Evaluation:

CDSL has documented a policy for evaluation of the performance of Directors and statutory committees. The Policy has been framed with an objective to ensure individual Directors of the Company and the Board as a whole, works efficiently and effectively in achieving their functions, in the interest of the Company and for the benefit of its stakeholders. Performance of MD & CEO is reviewed and evaluated by the Board of Directors. The Nomination and Remuneration Committee guided by Nomination and Remuneration Policy evaluates the performance of all KMPs and determines the amount of remuneration including performance based variable pay, if any, to be awarded. CDSL evaluates the performance of its Directors in a fair and objective manner.

Key Consideration 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 Board of Directors:

In compliance with all applicable laws and regulations, Board of Directors of CDSL comprises a majority of Public Interest Directors who represent the interests of general investors with the remainder being Non-Independent Directors.

The composition of the Board of Directors of the Company represents the optimal mix of professionalism, qualification, knowledge and requisite skill sets. The Board of Directors has

requisite qualifications and experience in the areas of capital markets, finance and accountancy, legal and regulatory practice, technology, risk management, and management/administration.

Appointment of Board of Directors:

Public Interest Directors are appointed by SEBI for a term of three years, extendable by another term of three years, subject to performance review in the manner as may be specified by the Board. Appointment of and re-appointment of all Non-Independent Directors is as per the applicable rules and regulations and is with prior approval of SEBI.

CDSL has put in place a Nomination and Remuneration Policy that specifies the eligibility and selection criteria for the appointment of Directors including qualifications, expertise, experience and skill sets required in accordance with the requirements of the Companies Act 2013, SEBI (Depositories and Participants) Regulations 2018, SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 and all other applicable regulations / guidelines.

The appointment, renewal of appointment and termination of services of the Public Interest Director, Non-Independent Directors and Managing Director & Chief Executive Officer (MD & CEO) is also subject to the prior approval of SEBI.

The information on Board of Directors and Committee Members is disclosed in CDSL's Annual Report and on the CDSL website.

Remuneration and Incentives of Board of Directors:

Remuneration to be paid to each Director is decided by the Nomination and Remuneration Committee in line with the Nomination and Remuneration Policy and applicable laws and regulations. Except sitting fees, within the ceiling limits provided under the Companies Act, 2013, no other incentive is paid to Public Interest Directors and Non-Independent Directors.

The compensation payable to MD & CEO or any change in the terms and conditions of the compensation is also required to be approved by SEBI.

Key Consideration 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.

Roles and Responsibilities of Management:

CDSL has segregate its functions into the following verticals:

- (a) Critical Operations
- (b) Regulatory, Compliance, Risk Management and Investor Grievances
- (c) Other functions including business development.

The management is responsible for carrying out business / day to day operations within the legal framework and by complying with all applicable laws. Management is also responsible for ensuring continuity of business / operations /services so that no client or stakeholder is put to loss or is inconvenienced. The management has the responsibility of framing business

strategies in furtherance of the objectives of CDSL. The management also plays a crucial role in motivating employees by defining clear goals and providing training and development opportunities for overall growth of employees.

The defined roles and responsibilities of the management and any changes made thereof, are shared with SEBI as part of the Monthly Development Report (MDR).

The Management team of CDSL 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 /Management to the Board of Directors.

Declarations and confirmations are obtained from all KMPs to ensure there are no conflict of interest with CDSL.

Key Consideration 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.

CDSL has established a robust Risk Management Policy aimed at effectively addressing a diverse range of internal and external risks that could potentially impact its business performance.

To ensure the resilience and reliability of its operations and infrastructure, CDSL has developed an Enterprise Risk Management Framework, which encompasses various categories of risks including Regulatory and Compliance Risk, Technology and Cyber Security Risk, Operational and Fraud Risk, Business Continuity Risk, Third Party Management Risk, Legal Risk, Financial Risk, Investment and Liquidity Risks, HR & People Risk, Premises and Security Risk, as well as Other Risks such as Interdependence with other Market Infrastructure Institutions (MIIs), Branding, Business Risk, Reputation Risk, Macro Environment, Sectorial Risks, and ESG (Environmental, Social, and Governance) related risks. This Framework includes processes for Risk Assessment, Risk Treatment, Reporting and Monitoring, as well as Risk Remediation & Oversight. The Framework also provides a structure for assessing risk tolerance.

In line with SEBI's guidelines, CDSL has constituted a Risk Management Committee to ensure appropriate methodology, processes, and systems are in place for monitoring and evaluating all risks. The Risk Management Committee reports to the Board.

The Chief Risk Officer (CRIO), appointed by CDSL, holds overall responsibility for developing and implementing risk control principles, frameworks, limits, and processes across all risk categories. The CRIO reports to the Risk Management Committee and the MD & CEO of CDSL. The Risk Management Department is independent from operational and business units and focuses on risk identification, assessment, response, mitigation, control testing, reporting, and monitoring.

The Risk Management Department, also conducts ongoing monitoring of internal and external risk events, periodically reviewing the Risk Management Policy and Framework and Risk Registers.

Regular system and cyber security audits are conducted to enhance operational effectiveness. Internal and concurrent audits are conducted by an Independent Chartered Accountant firm, with audit reports presented to the Audit Committee which in turn reports to the CDSL Board.

The internal control functions are adequately staff and maintain sufficient authority and independence to carry out their roles and responsibilities.

Key Consideration 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.

Identification and Consideration of Participants' interests:

CDSL conducts interactive meetings with participants and representatives of beneficial owners, if required. Proposed updates in the operations, systems or policies of CDSL, required by SEBI or driven by CDSL's initiative, are discussed with DPs. Suggestions & feedback are encouraged and incorporated during the change process.

Standing Committee on Technology (SCOT) advises on system requirements and suitability of the hardware and software required for meeting challenging and dynamic business requirements. Further, Member Committee ensures appropriate actions against erring DPs and RTAs.

Regulatory Oversight Committee (ROC) reviews complaint resolution process and status of redressal of grievances of demat account holders, depository participants, Issuers / RTAs with respect to depository operations and reviews arbitrators and arbitration awards. The ROC also reviews the fees and charges levied by CDSL. The Committee is also responsible for deciding on the criteria for admission, withdrawal of securities and continuous compliance requirements.

Annual Disclosure:

Communiqués are issued on all important operational matters for the benefit of stakeholders and are disseminated on CDSL website on timely basis. Major events of the Board are disclosed in the Annual Report and uploaded on website. Other corporate announcements are disclosed on the CDSL website as well.

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.

Key Consideration 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.

CDSL has a Risk Management Policy to effectively handle various internal and external risks that can impact its business performance.

Risk Management Framework:

To ensure the soundness and reliability of its operations and infrastructure, CDSL has formulated Enterprise Risk Management Framework which covers risks such as Regulatory and Compliance Risk, Technology and Cyber Security Risk, Operational and Fraud Risk, Business Continuity Risk, Third Party Management Risk, Legal Risk, Financial Risk, Investment and Liquidity Risks, HR & People Risk, Premises and Security Risk and other risks such as Interdependence with other Market Infrastructure Institute (MII's), Branding, Business Risk, Reputation Risk, Macro environment, Sectorial, ESG (Environmental, Social and Governance) related risks, etc.

The CDSL Enterprise Risk Management Framework includes Risk Assessment, Risk Treatment, Reporting and Monitoring, and Risk Remediation & Oversight.

The Risk Management Framework is reviewed regularly to ensure that it remains relevant and appropriate considering the changing circumstances and to ensure that principles and policies are effectively implemented.

The Chief Risk Officer (CRIO) has been appointed by CDSL and has the overall responsibility for the development and implementation of risk control principles, frameworks, limits and processes across all categories of risks faced by Company. The CRIO reports to the Risk Management Committee and to the MD & CEO of CDSL.

Risk Management Committee:

CDSL has constituted the Risk Management Committee in line with SEBI guidelines. The Risk Management Committee is headed by a Public Interest Director and reports directly to the Board of Directors. The Committee provides an overall assessment of risks impacting the activities of the Company and meets on periodic basis or whenever events warrant. The members of the Risk Management Committee are appointed by the Board and comprise only of the Public Interest Directors and Independent External Persons with the total number of Public Interest Directors always more than the total of number of independent external persons.

Risk Monitoring:

The Risk Management Department has laid down process to identify and prioritise the risks which needs to be periodically monitored and addressed.

Risk registers are the primary record of the Company's risk knowledge. They are used for recording risk management process for identified risks of all the departments of the Company providing detailed risk description, probability of occurrence and impact. Risk registers also serves as a record of the control activities currently undertaken to improve the overall control environment.

The Risk Department of CDSL along with process owners has documented comprehensive Risk Registers which cover CDSL's core and supporting activities including IT, Operations, Regulatory and Compliance, Enterprise, Administration, Finance, Legal, Secretarial, HR and Corporate Communication.

Key Risk Indicators (KRI) are used as a metric for measuring the probability of an uncertain event whose impact may exceed the Company's risk appetite. Monitoring of these KRI's regularly enable proactive risk management approach and assist in prevention of risk materialization.

Apart from ongoing monitoring of risks emanating from internal environment, the Risk Management Department strives to identify external events that may pose a risk upon the Business objectives.

Risk Management Policy and Framework along with the Risk registers are reviewed regularly. The evolving business environment is also regularly monitored.

CDSL conducts regular system and cyber security audits to enhance operational effectiveness. CDSL has also appointed an Independent Chartered Accountant firm which conducts Internal and Concurrent audits in the Company. Internal and Concurrent audit reports are presented to the Audit Committee.

Key Consideration 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.

CDSL ensures that its business partners comply with applicable regulatory provisions by conducting regular inspections of both Depository Participants (DPs) and RTAs and provides training across the country for DPs and RTAs. In addition to the half yearly internal audits, CDSL has made it mandatory for all registered DPs to conduct concurrent audits of risk prone areas. As per SEBI guidelines CDSL has made it mandatory for the registered DPs to audit their systems through a CERT-In empanelled auditor. The audit reports are then submitted by the DPs to CDSL on regular basis.

CDSL's bye laws contain comprehensive provisions for taking disciplinary actions against erring Participants which includes imposing penalties, suspension, expulsion and cancellation of agreement between CDSL and DPs.

Key Consideration 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.

CDSL identifies the material risks faced by the Company through regular risk assessments. Additionally, it periodically evaluates significant risks originating from and affecting other FMIs. Through this review, appropriate risk management tools are developed to effectively address these interdependencies and mitigate associated risks. This is achieved by providing alternative systems and ensuring there are no single points of failure. CDSL also adheres to the guidelines set by SEBI for Business Continuity Plan and Disaster Recovery for Depositories.

CDSL has also laid down policies on Outsourcing and Procurement.

Key Consideration 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.

CDSL continuously identifies, assess, and manages its risks in line with the framework laid down as per the Risk Management Policy. Based on the business and operations CDSL has identified scenarios that may prevent CDSL from providing critical operations and services. Specifically, the following scenarios have been identified:

- System failures
- External and environmental threats
- Damage from fire, flood, earthquake, explosion, civil unrest, and other forms of natural or man-made disasters
- Loss of Information
- Breach of information security and cyber attack
- Events that can cause interruptions to business processes
- Frauds or errors / delays by CDSL employees
- Frauds or errors / delays by employees of Depository Participants
- Risks associated with physical security
- Non-availability of services on account of problems associated with systems, human resources, infrastructure, vendors, etc.
- Obligation of compensation for loss as a result of litigation

CDSL complies with broad guidelines laid down by SEBI for Business Continuity Plan and Disaster Recovery for Depositories. To mitigate the risks, CDSL has a ISO22301:2019 certified Business Continuity Management System and has established Disaster Recovery and Near Disaster Recovery sites separate from its primary location.

CDSL also has a policy framework for orderly winding down of its critical operations and service.

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.

Key Consideration 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.

The SEBI (Depositories and Participants) Regulation, 2018, in conjunction with the SEBI approved bye laws of CDSL, establishes the compliance framework for the operations of CDSL and its Depository Participants (DPs). Appropriate rules, procedures and controls including robust accounting practices are laid down to ensure effective functioning of CDSL operations. Additionally, CDSL has formulated Operating Instructions that govern the processes of its depository services.

Safeguard the rights of securities issuers and holders:

CDSL ensures that rights of securities issuers and holders are safeguarded by employing robust system, rules and procedures complying with the applicable legal framework. As required under SEBI (Depositories and Participants) Regulations, 2018, CDSL maintain records and documents for various information including securities dematerialized and rematerialized, names of transferor, transferee and dates of transfer of securities; a register and index of beneficial owners, details of the holding of the securities of beneficial owners as at end of each day, records of instructions received from and sent to participants, issuers, issuers' agents and beneficial owners.

Furthermore, the Companies Act, 2013 recognizes the register and index of beneficial owners maintained by Depositories as the corresponding register and index for compliance purposes under the Act.

Regulation 75 of SEBI (Depositories and Participants) Regulations, 2018 specifies that reconciliation of dematerialized securities with all the securities issued by issuer, on a daily basis, shall be the responsibility of issuer or its agent. However, Depositories will be responsible for such reconciliation on daily basis where the State or the Central Government is the issuer of Government securities. In case of any discrepancies the same is informed to RBI.

CDSL provides a system whereby the Issuer can check the securities balance for each ISIN on daily basis. CDSL has also directed Issuer / RTA to maintain a reconciliation register to reconcile CDSL's balance against their back-office balance on a daily basis. CDSL inspects the maintenance of this register during its inspection of Issuer / RTA. CDSL also provides the Issuers / RTAs the beneficial owner position (BO Name, ID, address, quantity of securities held, etc.) on periodic basis (weekly and every month end) free of charge. If any Issuer / RTA requires the information on ad-hoc basis, the same is also provided by CDSL.

There are measures that are taken to ensure there is no fraud. Some key measures are:

- System access controls.
- Segregation of duties (including some enforced by systems and automated workflow).
- Physical security controls.
- DP inspection function
- Transaction statements on monthly basis to BOs having 'dormant accounts'.
- Insurance cover for DP related fraud claims
- Multi factor authentication
- Fraud awareness training
- Regular policy updates and communication with employees

There are also controls designed to uncover fraud when it occurs. Some key measures include:

- Inspection based on regulatory requirements.
- Pro-active data analysis.
- Conducting Special inspection when fraud has been reported by DPs.
- Investor Grievance mechanism and Helpdesk to resolve BO's Complaints.
- Report of transactions originating from the 'dormant accounts'
- Internal / Concurrent Audit.

With respect to the rights of BO, CDSL verifies the requisite allotment documents submitted by the RTA and Issuer for all corporate actions where the beneficial owner has an option to exercise their rights. For any corporate action where no option needs to be exercised by the beneficial owners, 'auto corporate action' is built in system which is processed on the basis of documents and information like ratio and benefit, ISIN entered by RTA/Issuer and checked by CDSL.

Prevention of unauthorized activation or deactivation of securities:

Admissions Team of CDSL monitors the process of activating, deactivating, or updating ISIN details in the depository system. Any activation or deactivation of ISINs is allowed only after submission and verification of prescribed documents by Issuer / RTA. Only the Admission team has permission to activate ISINs in the system and internal review of system entries for updating securities details is conducted against the documents submitted by Issuers / RTAs. The access management of systems is verified in the System audit conducted. Further, independent concurrent auditor also reviews the activation or deactivation of securities in system.

As additional control measure, Distinctive Number Range (DNR) database is created. The DNR database is database of distinctive numbers of equity shares of listed companies with details of distinctive numbers in respect of physical shares and overall range for dematerialized shares. This database aids in keeping track of the distinctive number assigned to issue shares and help prevent the unauthorized creation of shares. On a monthly basis, the sum of DNR is matched with the listed capital provided by the Exchanges.

Periodic Review:

All DPs are required to conduct half-yearly Internal Audits as well as concurrent audit of risk prone area on an ongoing basis. Further, CDSL conducts regular inspections of DPs and Issuers / RTAs.

Key Consideration 11.2:

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

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

Key Consideration 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.

SEBI guidelines governing the dematerialization of securities by Depositories are outlined in the SEBI (Depositories and Participants) Regulations, 2018, along with any subsequent amendments or notifications issued by SEBI from time to time. SEBI has mandated that all requests for transfer of securities including transmission and transposition requests shall be processed only in dematerialized form. Transfer of shares in physical form has been prohibited. CDSL maintains securities only in dematerialised form.

Dematerialization and Digitization of all key assets is part of CDSL's vision. CDSL incentivizes DPs and investors by conducting nation-wide trainings and programmes in English, Hindi and other regional languages, highlighting the advantages of dematerialization of securities such as convenience and ease of transfer. CDSL provides dematerialization facilities to investors to convert physical shares into dematerialized form. Additionally, CDSL offers a complimentary service to demat account holders, allowing them to access their account details and transaction history online through the internet.

CDSL provides the Basic Service Demat Account (BSDA) which attracts very low maintenance charges in a year. BSDA is designed for retail investors who are not very active in the stock market and have invested a small amount.

CDSL also provides a 'Electronic Consolidated Account Statement' (eCAS) to enable a single consolidated view of all the investments of an investor in Mutual Funds (MF) and securities held in demat form with the Depositories.

Key Consideration 11.4:

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

Under legal framework of Depositories, securities are mandatorily held in segregated account in the name of beneficial owners. Custody risk in this framework lies with DPs.

CDSL has established adequate procedures and facilities to ensure that its records are protected against loss or destruction. Backup facilities at a location different from the main office premises are set up to protect against data loss. As required by SEBI (Depositories and Participants) Regulations, 2018, any loss caused to beneficial owners by the wrongful act, negligence or default of the Depository or its Participants or any employee of the Depository or Participant is indemnified by the insurance cover. The insurance covers losses stemming

from system failures, negligence, errors, and fraudulent activities perpetrated by employees of either CDSL or DPs.

Furthermore, bye laws of CDSL 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, CDSL may require the Participant to replenish the relevant securities forthwith.

Operationally, CDSL 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.

Key Consideration 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 CDSL's bye laws.

CDSL has adopted beneficial owner level accounting system CDAS which ensures segregation of securities.

CDSL 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 can decide to close the demat account with a DP and open another account with other DP and transfer securities to such an account. CDSL as well as the DP does not levy any charge on closure of an account, or such transfer instructions, as directed by SEBI.

Key Consideration 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 Regulation 7(c) of SEBI (Depository and Participants) Regulation 2018, CDSL is only permitted to carry out activities of Depository or activities incidental to the activities of a depository. CDSL may carry out an activity which is not incidental to its activities as a

Depository, through the establishment of Strategic Business Unit(s) specific to each activity with the prior approval of SEBI and subject to such conditions as may be prescribed by SEBI.

CDSL has incorporated subsidiaries / Special Purpose Vehicles to perform activities other than depository activities or activities incidental to depository like KYC Registration Agency (CDSL Ventures Limited India), Commodities Repository (CDSL Commodity Repository Limited), Insurance Repository (CDSL Insurance Repository Limited) etc. This structure ensures that risks, if any, arising from carrying out of such activities do not affect the Depository.

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.

Key Consideration 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.

Rules and Procedures:

CDSL's bye laws and the agreement between CDSL and Depository Participants (DPs) clearly define the procedure to be followed in case of termination or suspension of a DP. The bye laws specify the disciplinary action to be taken against DPs including penalties, suspension, expulsion and cancellation of agreement between CDSL and DPs.

Bye laws requires DPs to forthwith inform CDSL in the event of default / insolvency. CDSL will then evaluate and follow the procedure for termination of the DP and arrange for transfer of beneficial owner's accounts from the concerned DP to another DP.

CDSL does not carry out clearing and settlement of securities. Further, securities balances are maintained at beneficial owner level and are segregated from securities balances of Participants. This ensures that the default or insolvency of a Participant does not affect the investors whose assets are held in a depository system. On the insolvency of a Participant, the Depository can terminate the agreement with its Participant and arrange for transfer of investors' accounts to another participant. Indemnity clauses are specified in the agreement with DP.

Bye laws provide the rights to Member Committee for imposing penalties on DPs as a disciplinary action. In case of termination or suspension of DP, a letter is sent by Admission Department of CDSL to all the Beneficial Owners having demat account with such DP wherein they are provided 15 days' notice period to transfer their securities into another similar demat account before conversion of DP into 'CDSL Managed DP'. Simultaneously, a note is prepared for approval of MD & CEO, to convert the DP into 'CDSL Managed DP' after the expiry of the notice period. Once the DP is converted into 'CDSL Managed DP', the pending Beneficial Owner's account is allowed to be operated only for the specific purpose of transferring the securities into new account in the same order of name as in the existing demat account. In case the Demat Accounts of 'CDSL Managed DPs' have to be auctioned, the auction process and other particulars of 'CDSL Managed DP' are communicated to all DPs through Communique.

CDSL also intimates SEBI when any DP is terminated or surrenders its registration.

Financial Resources:

As part of risk management measures to prevent participant default during admission, the depository takes an Interest-free security deposit, and it can request for additional security

deposit as deemed necessary. This deposit can be refunded to DPs on expiry of 3 years from date of cancellation of registration certificate as a DP by SEBI or after resolving pending investor grievances, if any, to the satisfaction of the Depository, whichever is later.

CDSL has also obtained insurance to cover loss to a Beneficial Owner due to the negligence or wrongful act by the DP.

Key Consideration 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.

CDSL has clearly laid down the procedures to be followed in case of default by any DP as per applicable rules, regulations and bye laws. Member Committee of the CDSL has the rights to pass order censuring or imposing penalties or suspending / expelling a DP as outlined in the bye laws of CDSL.

Key Consideration 13.3:

An FMI should publicly disclose key aspects of its default rules and procedures.

The disciplinary action that can be taken against DPs including procedure for termination of a DP has been laid out in CDSL bye laws. The bye laws have been made available on CDSL website. Any modifications therein are notified to public through Communique.

Key Consideration 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.

CDSL has effective and clearly defined rules and procedures to manage a Participant default.

CDSL's bye laws provide the Member Committee right to pass an order of disciplinary action against a DP including imposing of penalties, suspension or expulsion. A personal hearing is given to Participants to represent their case.

Any penalty imposed is communicated to DPs with a timeline to settle the dues and rectify the actions. Reminder communication is sent to DPs if the dues are not settled or rectification action is not taken. CDSL tracks the resolution of queries raised on DPs and follows-up with DPs until the corrective steps are taken.

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 materialize. Further, liquid net assets should at all times be sufficient to ensure a recovery or orderly wind-down of critical operations and services.

Key Consideration 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.

General Business Risk is managed under the Risk Management Framework of CDSL which includes Risk Management Policy governed by Risk Management Committee. CDSL identifies, monitors and manages general business risks. Key business risks of CDSL include the following:

Execution of Business Strategy:

As part of annual strategy planning process, CDSL organizes a Board Strategy Meeting with the Management of the Company to deliberate on various topics related to strategic planning, progress of ongoing strategic initiatives, risks to strategy execution and the need for new strategic programs to achieve long-term objectives of the Company. The long-term business goals are also discussed by the management and the Board on a regular basis.

CDSL has documented comprehensive Risk Registers which cover CDSL's core and supporting activities including IT, Operations, Regulatory and Compliance, Enterprise, Administration, Finance, Legal, Secretarial, HR and Corporate Communication.

Critical functional areas of the Company are reviewed as part of internal and concurrent audit, which is carried out by an Independent Chartered Accountant firm. The scope of the internal and concurrent audit is determined by the Audit Committee and the audit reports are reviewed by this Committee on regular basis.

System Risk:

CDSL has Business Continuity Management Policy which lays down the procedures to be followed in case of any failure or issues faced with the system. CDSL has a Disaster Recovery site and a near disaster recovery site. Further, CDSL conducts yearly system audit and half-yearly cyber-security audits in addition to BCP drills to ensure smooth running of operations in case of system failure.

CDSL regularly evaluates technological advancements taking place in the industry and feasibility of any technological enhancements in its operations. Standing Committee on Technology (SCOT) governs any changes initiated and implemented within the systems of CDSL.

Error / Fraud by an employee of the Depository:

CDSL has framed a Fraud Risk Management Policy and Whistle Blower Policy to provide a system for prevention, detection and reporting of any fraud that is detected or suspected within the Company.

Furthermore, CDSL has adequate segregation of responsibilities among the Departments and make-checker principle has been implemented in all functions. In addition, regular trainings are provided to employees. This reduces the chances of errors and frauds. CDSL has also obtained insurance policy covering losses against error / fraud.

Financial Risk:

CDSL operates with a comprehensive framework of financial planning and management. The Company conducts annual review of Internal Financial Controls by an independent consultant. CDSL has adopted the process of preparing budget for revenue and capital expenses and placing of the same for the recommendation of Audit Committee to Board for its approval and thereafter Board approves the same. Each of the Departments monitor their approved Budget and in case of unbudgeted item, approval is sought as per Board approved delegation of power. CDSL has Board approved investment policy which ensures safety of the investments. The costs / expenses are monitored and controlled. Quarterly financial results are considered and recommended by the Audit Committee to the Board for its approval. Post approval of the Board the quarterly financial results are submitted to the Stock Exchange (NSE), published on the Company's website and also published in newspapers within regulatory timeframe.

Key Consideration 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.

CDSL conducts financial management to maintain a stable and ample amount of liquid net assets funded by equity so that it can continue operations and services as a going concern.

Being a listed company, CDSL submits its approved quarterly financial results to stock exchange (NSE) and also publishes the same on its website. The operating expenses and the average operating expenses per month are based on the year ended March 31, 2024. The information is as under:

Sr. No.	Particulars	Amount (Rs. in Cr)
1.	Net worth as per Regulation 15 of SEBI (Depositories and Participants) Regulation, 2018 as on March 31, 2024 (A)	1,041.03
2.	Liquid net assets funded by equity as on March 31, 2024 (B)	722.44
3.	Operating Expenses for the year ended March 31, 2024 (C)	270.10
4.	Average operating expenses per month (D) = (C/12)	22.51
5.	Period for which liquid net assets will cover the operating expenses (E) = (B)/(D)	32 months

CDSL holds adequate liquid net assets to continue operations and services and cover around 32 months of average operating expenses.

In addition to this, CDSL has taken Special Contingency Policy and Directors and Officers Liability Insurance Policy which covers CDSL – Directors & Officers, Beneficial Owners, Depository Participants, etc. against losses.

Key Consideration 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.

As on March 31, 2024, CDSL has a net worth of Rs. 1,041.03 Cr against the requirement of Rs. 100 Cr as prescribed in SEBI (Depositories and Participants) Regulation, 2018. CDSL holds net liquid assets funded by equity of Rs. 722.44 Cr as on March 31, 2024 and average monthly operating expenses of Rs. 22.51 Cr based on the financial results for the year ended March 31, 2024. Thus, CDSL has enough net liquid assets to cover average operating expenses of 32 months as against the PFMI requirement of 6 months.

CDSL has a policy framework for orderly winding down of its critical operations and service.

Key Consideration 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.

As on March 31, 2024, CDSL has net liquid assets of Rs. 722.44 Cr consisting of fixed deposits with Banks, Non-Convertible Debentures, Bonds, Central Government Securities, Units of Mutual Fund and Exchange Traded Fund net off working capital requirement. These liquid net assets are estimated to cover 32 months of average monthly expenses of CDSL.

All investments of CDSL are guided by investment policy prepared in compliance with Section 186 of Companies Act, 2013 and approved by the Board. Surplus funds of the Company are invested in bank deposits, various securities in the form of Bonds, non-convertible Debentures, Certificate of Deposits, Commercial Papers, Units of Mutual Funds, Exchange traded funds, Government Securities and other eligible instruments subject to the monetary limits and guidelines mentioned in the investment policy. Substantial portion of CDSL's investments are in government securities, non-convertible debentures, tax-free bonds and units of Mutual Fund which are adequately liquid instruments.

Further, investment policy also sets the guidelines for choosing issuer of the investment instrument based on careful examination of the Company's short and long-term cash flow needs, tolerance for risk, the likely return from the investments that fit these parameters, and any specific investment concerns confronting the Company.

CDSL also prepares a budget plan to estimate the future operating expenses for the year and reviews the liquidity of assets for fulfilling the budgeted expenses.

Key Consideration 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.

CDSL had equity share capital of Rs. 104.50 Cr and other equity of Rs. 1055.38 Cr as on March 31, 2024.

CDSL's net worth as on March 31, 2024 was Rs. 1,041.03 Cr (calculated in accordance with Clause 15 of the Securities and Exchange Board of India (Depository & Participants) Regulations, 2018) as against requirement of Rs. 100 Cr as prescribed in SEBI (Depositories and Participants) Regulation, 2018. CDSL has adequate equity capital to fulfil the SEBI requirements.

CDSL is a listed company and any change in its equity capital, will require the approval of Board of Directors and of its shareholders.

PRINCIPLE 16: Custody and investment risks

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.

Key Consideration 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.

There are no physical assets of Depository Participants (DPs) held in custody by CDSL. The Company receives only an interest-free refundable security deposit from DPs. This deposit can be refunded to DPs on expiry of 3 years from date of cancellation of registration certificate as a DP by SEBI or after resolving pending investor grievances, if any, to the satisfaction of the Depository, whichever is later.

In case of Government Securities, CDSL holds the assets in Subsidiary Ledger Account (SGL) with RBI.

The CDSL's own investments are made as per the Board approved investment policy and in securities such as units of Mutual Fund, Bond/NCDs, fixed deposits, Central Government Securities etc.

The Issuer entities of invested instruments operate under the oversight and regulation of the Reserve Bank of India (RBI) and the Securities and Exchange Board of India (SEBI). The RBI conducts system and accounts audits for banks. SEBI oversees the auditing processes for Mutual Funds and other regulated entities. In addition, DPs are supervised and regulated by the Depository and SEBI.

Key Consideration 16.2:

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

CDSL holds its investments in securities, mutual fund units, NCDs / Bonds. These are in dematerialized/SOA (statement of accounts) form. The securities kept in demat account with DPs are protected against claims of DP's creditors.

Bank FDs, Bonds/NCDs, Government Securities and mutual fund units are liquid assets and can be accessed at short notice. Further, CDSL has an investment policy which specifies the categories of instruments where it can invest considering safety and liquidity of its investments.

CDSL does not hold any physical asset provided by Participants. CDSL receives only an interest-free refundable security deposit from DPs.

Key Consideration 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.

CDSL does not have any exposures to any custodian banks, hence this key consideration is not applicable.

Key Consideration 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.

CDSL has formulated investment policy (approved by its Board) based on a careful examination of the Company's short and long-term cash flow needs, tolerance for risk, the likely return from the investments that fit these parameters, and any specific investment concerns confronting the Company's goals. 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 investment strategy is formulated taking into consideration its overall risk-management strategy which addresses the risks broadly categorized as:

1. Safety Risk
2. Credit Risk
3. Interest Rate Risk
4. Price Risk
5. Liquidity Risk
6. Yield Risk

Investments are made with the objective of providing adequate level of safety, liquidity to meet contingencies, to achieve 'risk vs. return' trade-off and to facilitate overall diversification of risks across the investments.

CDSL has an oversight, review of its investments through an Investment Committee. The investment committee consists of a Board member, an external expert and the Chief Financial Officer of the Company. The Committee meets on a quarterly basis to review the investments made by the Company and reviews the investments strategies to be followed.

CDSL does not disclose its investment strategy to its Participants.

Further, the investments are in liquid instruments (short term / medium term) carrying minimal credit risk. The investments in securities, NCDs and Bonds is kept in demat form ensuring easy access and liquidation. Substantial portion of investments of CDSL is in government securities, tax-free bonds, non-convertible debentures and various category of schemes of Mutual Fund.

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.

Key Consideration 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.

Risk Management Committee (RMC) is a Board Committee headed by a Public Interest Director (PID) and is constituted to assist the Board in its responsibility for ensuring that appropriate risk management and internal control system is in place and for regularly reviewing the effectiveness of the same.

The Chief Risk Officer (CRIO) has been appointed by CDSL and has the overall responsibility for the development and implementation of risk control principles, frameworks, limits and processes across all categories of risks faced by the Company.

To ensure the soundness and reliability of its operations and infrastructure, CDSL has formulated Enterprise Risk Management Framework which covers the following key risks:

- i. Regulatory and Compliance Risk
- ii. Technology and Cyber Security Risk
- iii. Operational Risk
- iv. Fraud Risk
- v. Business Continuity Risk
- vi. Third Party Management Risk
- vii. Legal Risk
- viii. Financial Risk
- ix. Investment and Liquidity Risks
- x. HR & People Risk
- xi. Premises and Security Risk

Risk registers are prepared covering all major operational functions of CDSL including settlement, DP and RTA Admission & Withdrawal, Corporate Action, Help Desk, Audit and Inspection, Surveillance, Investor Grievance, etc. The risk registers are updated on regular basis.

With an aim to mitigate and minimize the effect of risks, CDSL has implemented various control measures.

The Risk Management Committee coordinates its activities with other committees where there is any overlap with activities of such committees, as per the framework laid down by the Board of Directors. CDSL has a Standing Committee on Technology (SCOT) and Regulatory

Oversight Committee (ROC) to assess and mitigate IT and information security risks and regulatory risk respectively.

CDSL has established Disaster Recovery (DR) and Near Disaster Recovery (NDR) sites separate from its primary location. DR drills are conducted regularly. System audit and cyber security audits are conducted by independent auditors. Checking for potential single point of failure is included in the scope of system audit of CDSL. There is no single point of failure at system level as all systems are backed up by alternatives.

CDSL has a ISO22301:2019 certified Business Continuity Management System (BCMS) and is ISO 27001:2022 certified for Information Security Management System (ISMS). CDSL also conducts Vulnerability Assessment and Penetration Testing (VAPT) to ensure information / cyber security. CDSL complies with guidelines laid down by SEBI for Business Continuity Plan and Disaster Recovery for Depositories.

CDSL has well laid-down policies, operating instruction, manuals to prevent administrative errors and carries out administration in accordance with these.

CDSL has adopted maker-checker principle for performing all important activities. Multifactor authentication is required to access depository system.

Further, CDSL has appropriate HR policies of hiring, training, retention and compensation. Various training programs are conducted regularly for employees.

Key Consideration 17.2:

An FMI's board of directors 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.

CDSL Board of Directors has given the responsibility to assess, monitor and review risks for Depository and Depository Participant operations to the Risk Management Committee.

All operational risk events, risk registers, major risks identified are monitored and reviewed by the Risk Management Department. Reports are provided to Risk Management Committee of CDSL to ensure appropriate plan of action is laid out to mitigate the identified risks. The Risk Management Committee coordinates its activities with other Committees where there is any overlap with activities of such committees, as per the framework laid down by the Board of Directors.

Business continuity review is performed annually, and Business Continuity Plan (BCP) tests are done on monthly basis by Operation team. DR drills are conducted regularly.

Standing Committee on Technology (SCOT) reports to the Board of Directors on IT and Cyber risks. Risks related to Information Security are monitored by Chief Information Security Officer. SCOT also advises Board of Directors on need for expansion or modification of processing / storage capacities, fine tuning, introduction of new features, steps to be taken to enhance performance and adoption of new technology to meet the requirement of Users.

The Regulatory Oversight Committee (ROC) reports to the Board of Directors and oversees Regulatory risk. The Committee monitors compliance with SEBI (Depositories and

Participants) Regulations, 2018 as amended from time to time and other applicable rules and regulations along with SEBI Circulars and other directions issued. The ROC also oversees the implementation of the Code of Ethics.

CDSL conducts internal audit and concurrent audit of all its major operational activities as well system audit and cyber security audit of its systems. Internal financial controls are also reviewed by independent consultant on annual basis and the internal audit and concurrent audit reports are placed before the Audit Committee.

All operational manuals of CDSL are reviewed at least once a year, considering the ever-changing business and risk environment.

Key Consideration 17.3:

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

CDSL, through its policies including Risk Management Policy and Risk Management Framework, strives to ensure continuous and stable operational management by creating a corporate culture that emphasizes risk management.

Regarding operational reliability, CDSL's objective is to ensure uninterrupted system availability with operational efficiency. The Business Continuity Plan (BCP) document covers this aspect. The BCP document is reviewed on half yearly basis.

CDSL ensures no data loss by implementing Near Disaster Recovery (NDR) sites.

CDSL also conducts system audit and cyber security audit on regular basis.

Key Consideration 17.4:

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

CDSL monitors capacity during the normal operation of its systems on daily basis. It monitors and assesses capacity utilization for disk space, CPUs and memory utilization. CDSL's system capacity is tested to handle stress volumes and is designed to handle higher volumes than the projected peak load. In addition, CDSL complies with SEBI guidelines related to capacity. Capacity Management is also reviewed under system audit.

Key Consideration 17.5:

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

Physical security:

CDSL has set strict rules for granting of authority to enter its offices and restricted areas and for controlling exit. CDSL office is housed in a building having multi layered physical security. Further, CDSL office regulates physical access through access control systems. The access to data centres, console room and network room is restricted and the entire office premises and data centres are under CCTV surveillance. The ISO 27001 certification has physical security too under its scope and international standards as embedded in ISO standards have been

implemented. Only personnel with authorized access can enter the premise and all Departments with confidential information are segregated from other Departments in the office.

Information security:

CDSL places a high priority on Information Security, particularly with regard to information system development, maintenance and operation. CDSL has put in place Information Security Policy and Privacy Policy. Vulnerability Assessment and Penetration Testing (VAPT) is carried out on half yearly basis while System audit is carried out on annual basis. Cyber Risk Assessment is conducted periodically. CDSL has also complied with ISO 27001: 2022 Standards and has been awarded ISO 27001: 2022 certificate by leading certification body. The Change Management Policy and procedures ensures that changes and any new projects do not affect the Information Security. The Chief Information Security Officer (CISO) is independently responsible for ensuring compliance to Information Security Policy.

While drawing the project management plan for changes and major projects, Information Security and Physical Security are among the primary aspects considered.

Information security is also covered in system audit and cyber security audit and observations are discussed in Standing Committee on Technology (SCOT).

Key Consideration 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.

The fundamental idea of Business Continuity Plan (BCP) is that in the event of a significant business disruption, CDSL will continue to conduct business as far as possible or resume business operations as soon as possible in order to minimize the effect on CDSL and Depository Participants.

Under its BCP, CDSL has implemented various processes to ensure Recovery Time Objective (RTO) of 45 minutes for critical processes as per SEBI guidelines. CDSL ensures no data loss by implementing Near Disaster Recovery sites (NDR).

Different stakeholders have been identified and specific responsibilities are assigned for communication.

CDSL has established a fully operational Disaster Recovery Sites (DRS) at different seismic zones and has deployed systems with capacity as that of primary site. CDSL has also established Business Continuity site at a safe distance from the main office site which can access both primary site, DRS and NDRS. BCP is reviewed on a six-monthly basis and whenever there is a significant change. CDSL conducts DR Drills and conducts operations from DR site on a quarterly basis.

Key Consideration 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.

CDSL 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 CDSL. Participants are also subject to inspections by CDSL annually.

CDSL requires all its participants to maintain an alternate means of connectivity. The Company can set up contingency terminal/DP's Easiest log-in for the concerned participant for execution of transactions. CDSL also accepts transactions from Participants through established procedure of accepting files through registered e-mail ids.

CDSL has identified operational risk due to failure of systems and connectivity as the major risk which it may pose to another FMI. The said risk is mitigated by providing for alternative system and ensuring that there is no single point of failure in systems.

CDSL requires DPs to conduct a mandatory System Audit, Cyber Audit and VAPT in accordance with the circulars issued by SEBI and submit the reports to CDSL as per the prescribed timelines.

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.

Key Consideration 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 for a Depository Participant (DP) are prescribed under SEBI (Depository and Participant) Regulations, 2018. The SEBI (D&P) Regulations 2018 outline classifications for entities which are eligible to assume the role of a Depository Participant (DP). Entities desirous of becoming Depository Participants must belong to one of the following categories:

- i) a public financial institution as defined in Section 2(72) of the Companies Act, 2013
- ii) a bank included for the time being in the Second Schedule to the Reserve Bank of India Act, 1934 (2 of 1934)
- iii) a foreign bank operating in India with the approval of the Reserve Bank of India
- iv) a State Financial Corporation established under the provisions of section 3 of the State Financial Corporations Act, 1951 (63 of 1951)
- v) an institution engaged in providing financial services, promoted by any of the institutions mentioned above, jointly or severally
- vi) a custodian of securities who has been granted a certificate of registration by the Board under sub-section (1A) of section 12 of the SEBI Act
- vii) a clearing corporation or a clearing house of a stock exchange
- viii) a stock broker who has been granted a certificate of registration by the Board under sub-section (1) of section 12 of the Act and has a minimum net worth of rupees 5 Cr
- ix) a non-banking finance company, having a net worth of not less than rupees fifty lakhs to act as participant only on behalf of itself. A non-banking finance company may act as a participant on behalf of any other person, if it has a net worth of Rs. 50 Cr in addition to the net worth specified by any other authority
- x) a registrar to an issue or share transfer agent who has a minimum net worth of Rs. 10 Cr and who has been granted a certificate of registration by the Board under sub-section (1) of section 12 of the Act.

Further, all Depository Participants should have adequate infrastructure, systems, safeguards and trained staff to carry on activities as a participant, should meet the fit & proper criteria and should comply with the provisions of the SEBI Act, Depositories Act, the bye laws, Agreements and SEBI (D&P) Regulations, 2018. Moreover, certified copy of NISM Series III A and NISM Series VI Certificate of the Compliance Officer of the applicant company is also required.

In addition to SEBI prescribed criteria, CDSL has also specified other requirements to be fulfilled for becoming Depository Participants:

- i) Furnishing information and details pertaining to its business and equity holding relating to a minimum period of 3 years immediately preceding the date of the application or from the date of its inception, if less than 3 years
- ii) The applicant including its partner / director / any person holding substantial interest in or otherwise in a position to control the affairs of the applicant should not have been convicted immediately preceding the filing of the application in any matter involving misappropriation of funds and securities, theft, embezzlement of funds, fraudulent conversion, forgery or any other offence involving moral turpitude
- iii) The applicant including its partner / director / any person holding substantial interest in or otherwise in a position to control the affairs of the applicant should not have been expelled, barred or suspended by SEBI or by any recognised stock exchange. Provided however that, if a period of three years or more has elapsed from the expiry of the period of expulsion, debarment or suspension, as the case may be, CDSL may, in its discretion, consider such application.
- iv) The applicant should have a net worth as specified by CDSL / SEBI whichever is higher.
- v) The applicant should furnish details of Board of Directors / Partners / Authorized officials as the case may be, who shall be responsible for conduct of business
- vi) Applicant shall have in its own staff such number of persons as CDSL may specify who are adequately trained or who, in the opinion of CDSL, are otherwise sufficiently qualified or have adequate skill and knowledge relating to the operational, functional and technical aspects of the workings of CDSL system
- vii) Applicant shall have a Compliance Officer to interact with CDSL on its behalf for compliance with these bye laws and for resolution and redressal of beneficial owners' grievances. Applicant should also appoint Principal Officer as required under PMLA Act.
- viii) Applicant has adequate office space exclusively for CDSL operations and has adequate arrangements for conducting effective and safe operations including software and hardware requirements, risk containment and insurance requirements, as specified by CDSL.

The bye laws are published on website of CDSL which can be referred by all applicants. Admission team of CDSL reviews the institutions' applications to ensure it meets the eligibility criteria. Only the eligible institutions are granted Certificate of Registration by SEBI and can enter into an agreement with CDSL to operate as a Depository Participant of CDSL. All DPs having a valid Certificate of Registration have a fair and equitable access to the CDSL systems. The Eligibility criteria and the DPs access rights to the CDSL systems are periodically verified through Inspection and half-yearly audits.

Under the Indian structure of Depositories, CDSL does not have any indirect participants which have access to CDSL systems.

Key Consideration 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.

Justification and Rationale of Participation Criteria:

Eligibility criteria and requirements laid down for operating as a Depository Participant ensure that only the appropriate entities complying with fit & proper criteria can participate as a DP and limit access to participants who are systematically essential. Apart from the eligibility criteria set forth by SEBI, CDSL has set additional requirements for Depository Participants to furnish information related to business, equity holding, Board of Directors, authorized officials and requires the Participants to have adequate arrangements for conducting effective and safe depository operations. These requirements are tailored to and commensurate with the operations of Depository Participants.

The Terms of Reference of the Member Committee as laid down by SEBI includes scrutinizing, evaluating, accepting or rejecting applications for admission of members, transfer of membership as well as approving voluntary withdrawal of membership. The Member Committee can delegate certain powers as specified by SEBI from time to time to an Internal Committee of CDSL. The eligibility criteria are based on operational, technical, financial, risk management, infrastructure and human resource capabilities of entities.

Compliance of Depository Participants with the eligibility criteria is verified by Admission Department at the time of application for registration and the compliance with net worth requirements is checked annually by Audit and Inspection Team.

Disclosure:

The Participation criteria, encompassing any limitations, are comprehensively outlined in the bye laws for the benefit of all participants and is accessible on the CDSL website. These eligibility requirements, as stipulated in the CDSL bye laws, undergo routine review as part of standard risk management protocols.

Key Consideration 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.

1. SEBI requires Depository Participants to continuously meet the eligibility criteria set in the SEBI (Depository and Participants) Regulations 2018. Furthermore, CDSL's bye laws contain comprehensive provisions regarding imposing of penalties, suspension of a Participant, reporting to the Member Committee, personal hearing before the Member Committee, issuance of a show-cause notice, and the issuance of a final order by the Member Committee.
2. CDSL has instituted a framework whereby the net worth of each participant undergoes annual scrutiny, facilitated by the submission of a net worth certificate and audited financial statements. In cases where a participant fails to augment its net worth within a prescribed timeframe, termination of its operations occurs, and the accounts under its custody are transferred to another Participant, subject to investor consent or notification.

These provisions are clearly defined in the CDSL bye laws, publicly available on the website.

3. Moreover, participants are obligated to meet participation criteria.
4. CDSL diligently oversees compliance with these requirements and requires a participant to suspend its business when it fails to meet the continuing requirements for fulfilling criteria of admission as provided in the bye laws. The suspension of business continues until participant furnishes satisfactory evidence of meeting with the requirements. CDSL may, if it is satisfied that it is necessary so to do, at any time and on such conditions as it thinks fit, terminate the agreement with the Participant by communication in writing if there are reasonable grounds to believe that the Participant is approaching financial difficulty or will be unable to meet its obligations to CDSL or its beneficial owners.
5. In the event of any observed deviations during inspections or internal/concurrent audits, appropriate penalties are imposed. Instances of non-compliance are referred to the Member Committee, where necessary disciplinary action such as issuing warnings or show cause notices, is taken.
6. In addition to periodic inspections, CDSL has a surveillance policy in place. Any alerts received during the surveillance activities are monitored and appropriate action is taken wherever required.

PRINCIPLE 19- Tiered Participation Arrangements

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

Key Consideration 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.

Key Consideration 19.2:

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

Key Consideration 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.

Key Consideration 19.4:

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

Our response to Principle 19 - Tiered Participation Arrangements is as mentioned below:

Depository structure as mandated by SEBI regulations and applicable legal framework provides only for direct participation in the Depository. The beneficial owners hold their accounts with Depository Participants who act as agents of the Depository. CDSL maintains accounts at beneficial owner level but the accounts for beneficial owners are opened and operated by Depository Participants.

PRINCIPLE 20: FMI Links

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

Key Consideration 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.

CDSL Risk Management Framework recognizes the risks from other FMI links. Links are established with highly regulated entities having sound legal basis and Risk Management Framework.

As a Depository, CDSL has established links with the following:

1. Other Depository regulated by SEBI
2. CCPs regulated by SEBI/RBI
3. Exchanges regulated by SEBI

CDSL has signed contracts / Memorandum of Understanding. Roles, rights and segregation of responsibilities of all parties are covered under terms therein. Further the requirements for links between CDSL and another Depository has been mutually decided upon. CDSL has provided access to CCPs in CDAS application for sharing data and conducting transactions.

CDSL framework recognizes the risks from these links and continuously monitors for early warning signals. Subsequently, appropriate risk mitigation measures and actions are taken including annual system audit, half-yearly cyber security audits and half-yearly VAPT.

Key Consideration 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.

CDSL has established links with regulated entities which sound well-founded basis in India. SEBI (Depositories and Participants) Regulations, 2018 requires CDSL 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.

Key Consideration 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 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.

Key Consideration 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 CDSL and the other Depository. To ensure finality of transactions, in case of a debit transaction, CDSL earmarks the balance and then sends the transaction to the other Depository. The other Depository will then send the response after checking details. If a positive response is received, the earmarked balance is debited and the nostro account is credited. Acknowledgement of the response is sent to the other Depository. Similarly, in case of credit transaction, the beneficial owner's account will be credited only on receipt of 'confirmation of response' from the other Depository. The transfer between the linked CSDs is final.

Key Consideration 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.

CDSL maintains data on securities holding at the beneficial owner level. Thus, securities are segregated at each beneficial owner level. Further, the SEBI (Depositories and Participants) Regulations, 2018 prescribe for reconciliation of records on a daily basis, by the Issuers, of dematerialized securities with all the securities issued by the Issuer.

Thus, this key consideration is Not applicable.

Key Consideration 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.

This key consideration is not applicable to CDSL.

Key Consideration 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.

This key consideration is not applicable to CDSL.

Key Consideration 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.

This key consideration is not applicable to CDSL.

Key Consideration 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.

CDSL's Trade Repository provides consolidated information on primary issuance across depositories and secondary market trades reported on stock exchanges with respect to corporate bonds, and both cash markets and OTC trades. The information is obtained electronically without any manual intervention and is also available on CDSL website.

CDSL requires DPs to conduct a mandatory System Audit, Cyber Audit and VAPT in accordance with the circulars issued by SEBI and submit the reports to CDSL as per the prescribed timelines.

PRINCIPLE 21: Efficiency and Effectiveness

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

Key Consideration 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.

The Participants and Markets:

CDSL's comprehensive services cater to all market participants, including Stock Exchanges, Clearing Corporations, Depository Participants (DPs), Issuers, Registrar & Transfer Agent (RTAs) and investors.

CDSL's services empower the every-growing dynamic financial landscape which include the capital market ecosystem and the diverse investors. With seamless efficiency and transparency, CDSL's platform enhances accessibility and security, enabling investors to monitor their holdings with just one click anytime anywhere.

CDSL is working towards widening the spectrum for market participants and provide secured custody and transfers of all dematerialised assets. The Company is committed to supporting and ensuring efficiency of markets to enable safe holding and transactions of all dematerialised securities in the Indian Capital Market.

Inputs from Participants and Markets:

CDSL has formulated Advisory Committee with Participant representation to enable feedback process from different stakeholders while formulating policies / enhancing or changing systems. In case of any major change or upgrade in the system or technologies, relevant participant groups are formed for consultation and inputs. Feedback on one-to-one basis from its Participants through on-site visits, are also available. CDSL connects with the market participants through the Head Office and regional offices spread across India. Periodic meetings are conducted with participants to gauge the market requirements and need for updates in policies or systems.

The Grievance Redressal Policy for customers includes a redressal framework to ensure prompt and effective resolution of grievances. CDSL have centralized investor grievance redressal team, which is responsible for addressing all grievances effectively in a time bound manner.

Such multiple channels for engaging the participants help in assessing effectiveness and efficiency of existing systems and procedures and understand requirements of the markets.

Key Consideration 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.

CDSL's objective is to be a dependable, secure and convenient Depository. The aim is to ensure uninterrupted market operations by focusing on infrastructure enhancement, cyber security, advanced data security, organizational culture which is consistent with desired goals and regulatory requirements. The objectives and goals are communicated as part of Annual Report and are published on website.

Minimum Service Levels:

Performance standards for CDSL's activities and systems are laid out through Operating Instructions. These performance standards are reviewed and deviations in processing time of critical system processes such as settlement processing, EOD processing, etc. are monitored. System and IT infrastructure efficiency is monitored through automated monitoring tool. SLAs are defined with critical third parties.

Business Priorities:

As part of annual strategy planning process, CDSL organizes a Board Strategy Meeting with the Management of the Company to deliberate on various topics related to strategic planning, progress of ongoing strategic initiatives, risks to strategy execution and the need for new strategic programs to achieve long-term objectives of the Company. The long-term business goals are also discussed by the Management and the Board on a regular basis.

Risk-management expectations:

CDSL 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.

Key Consideration 21.3:

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

Concurrent and Internal audit of operations, finance function and other activities having impact on market on daily basis is also conducted by independent Auditors. The Auditors review compliance with laid down (Service Level Agreement) SLAs and report non-compliance if any.

CDSL conducts annual system audit and half-yearly cyber security audits through external auditors to verify the efficiency and effectiveness of IT infrastructure and system controls put in place.

Adequacy and effectiveness of Internal financial controls are also verified by external consultant. MD & CEO along with Executive Management Committee regularly meet to review any challenges or issues faced by various departments.

The Risk department of CDSL independently reviews the operational processes and prepares risk registers to identify and monitor the key risk areas, existing controls and improvement opportunities. The risk registers are updated regularly to review the efficiency and effectiveness of internal controls in operational processes.

Periodic meetings are held with Participants and Issuers to ascertain if any changes are desired in the systems or procedures. On site meetings are conducted to engage with participants and obtain their feedback on processes followed.

CDSL ensures that Participants comply with applicable regulatory provisions by conducting regular audit and inspections of both DPs and RTAs.

PRINCIPLE 22: Communication Procedure 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.

Key Consideration 22.1:

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

Communication Procedures for Login:

CDSL uses multi-factor authentication system involving user id, password and protocol level authentication at the user login of depository application. The said system is accessible to participants through a private network (point to point connectivity) as well as the Internet. Once the user is authenticated successfully using simultaneously mutual authentication between user terminal and CDSL, users get connected to depository application through the secure encrypted channel. It enables protocol-level authentication of both the user and user access device before providing access to the Depository application. Multiple factors including the Relative-Identity Mutual Authentication and Key Exchange (RMAK) protocol ensures that only the authorized user connects to the Depository application and nobody else, much like an on-demand private network.

Communication Procedures for Data and other Services:

Internationally acceptable communication protocols such as HTTPS is used for carrying out data communication between CDSL and DP via Internet using TCP443. Internationally acceptable communication protocols such as HTTPS is used for carrying out data communication between CDSL and other stakeholders via internet interface (Easi- Easiest). For 'Easiest' services, user also uses digital signature for non-repudiation of transactions over the Internet.

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.

Key Consideration 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.

For Depository Participants (DPs) and Issuers / RTAs, CDSL bye laws, Operating Instructions, Compliance Manual, Communiqués comprise the CDSL's rules and procedures. They are also governed by the Depositories Act, 1996, SEBI (Depositories and Participants) Regulations, 2018 and SEBI circulars issued from time to time. Bye laws of CDSL are approved by SEBI. This framework is designed to ensure transparency and regulatory compliance within the Company. In addition to the regulatory requirements, CDSL has also laid down internal policies and procedures governed by Operating Instructions and Compliance Manual. Any amendments or modifications to the Operating Instructions are submitted to SEBI for approval prior to implementation by CDSL. Both the bye laws and Operating Instructions delineate procedures, rights, and obligations of involved entities, submission requirements to CDSL, as well as penalty provisions. The policies also provide for approval mechanism from exception case handling.

CDSL has set up Committees governing all critical operations which discuss the proposed changes in system and procedures as well as regulatory updates.

To facilitate accessibility for both Depository Participants and the general public, pertinent information regarding these rules and procedures is readily accessible on the official CDSL website. Communiqué are published on CDSL's website for stakeholders' information.

Key Consideration 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 CDSL bye laws and Operating Instructions accessible to all stakeholders through CDSL's official website. Any amendment to CDSL bye laws and Operating Instructions are with prior approval of SEBI.

These bye laws encompass information regarding the rights and obligations of participants and beneficial owners, as well as procedures for addressing investor grievances.

Further, agreement signed with Depository Participants (which form part of the CDSL bye laws and approved by SEBI) also includes but not limited to the information on requirements related to hardware and software to be installed by Participants, connectivity and systems, back-up plan, disaster recovery plan as well obligations of participants, information to be submitted to CDSL, events requiring immediate intimation by participant to CDSL, insurance and

indemnity. Internal committee emphasises the importance of risk management and compliance with regulations during onboarding of Depository Participants.

Key Consideration 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.

In addition to disclosing all applicable framework on its website, training programs are conducted for employees / Compliance Officers of DPs and internal/concurrent auditors of DPs. Two employees of each DP are mandatorily required to undergo Training sessions spanning one to four days. Assessments are administered upon the completion of each DP training program, and certificates are awarded to individuals who successfully pass the exams.

SEBI mandates that individuals engaged in specified activities within DP operations must obtain certification from the National Institute of Securities Markets (NISM). This involves passing the NISM-Series-VI: Depository Operations Certification Examination (DOCE) for associated persons. Additionally, Compliance Officers of Participants are required to hold certification from the National Institute of Securities Markets (NISM) by successfully completing the NISM Series – III A: Securities Intermediaries Compliance (Non-Fund) Certification Examination.

The initial inspection of the DP occurs within three months of its commencement of operations. This inspection serves to familiarize DP with the diverse compliance obligations. Any inquiries raised by the DP are promptly addressed. In cases where deficiencies are identified during the annual inspection pertaining to the DP's comprehension of procedures in specific areas, inspectors offer guidance to the DP.

Furthermore, CDSL has, on its website, published a Frequently Asked Question (FAQ) section to facilitate understanding of Depository Participants

In addition, CDSL conducts 2 days RTA Training on a quarterly or on an as-needed basis to provide comprehensive knowledge of the various processes of the Depository. This training provides hands-on experience with CDSL application modules and covers all operational and software aspects of the CDSL system.

Key Consideration 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.

The fees applicable to participants, issuers, and RTAs, are outlined in the Operating Instructions, accessible on the website. Any revisions to these fees are communicated to all relevant parties via a communiqué. This information is also prominently displayed on the website.

Nomenclatures used for various services offered by CDSL are commonly used in the industry and easily understandable by the users and therefore offers easy comparability.

Key Consideration 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.

CDSL discloses information responding to CPSS-IOSCO's Disclosure framework for financial market infrastructures. The quantitative information is shared on quarterly basis and annual disclosures is published for qualitative information as per the timelines prescribed by SEBI.

CDSL 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 of CDSL. CDSL, being a listed company submits the quarterly and annual financial results to the stock exchange (NSE) and also publishes its results on its website and in Newspapers.