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CDSL/OPS/RTA/POLCY/2024/164

September 25, 2024

SEBI CIR PARAMETERS FOR PERFORMANCE EVALUATION OF MARKET INFRASTRUCTURE INSTITUTIONS

Issuers / RTAs are advised to refer to the SEBI Circular no. **SEBI/HO/MRD/POD-III/CIR/P/2024/127** dated **September 24, 2024**, regarding **Parameters for Performance Evaluation of Market Infrastructure Institutions [refer Annexure]**

Issuers / RTAs are advised to take note of the same.

Queries regarding this communiqué may be addressed to: CDSL – Helpdesk Emails may be sent to: dprtasupport@cdslindia.com and connect through our IVR Number 022-62343333 .

For and on behalf of
Central Depository Services (India) Limited

sd/-

Nilesh Shah
Asst. Vice President

CIRCULAR

SEBI/HO/MRD/POD-III/CIR/P/2024/127

September 24, 2024

To,

**All Recognized Stock Exchanges
All Recognized Clearing Corporations
All Depositories**

Dear Sir/ Madam,

Sub: Parameters for Performance Evaluation of Market Infrastructure Institutions

1. Regulation 33(6) of the Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) Regulations, 2018 (hereafter referred to as “SECC Regulations, 2018”) and Regulation 31(6) of the SEBI (Depositories and Participant Regulations, 2018 (hereafter referred to as “D&P Regulations, 2018”) states that every recognised stock exchange, recognised clearing corporation and depository (collectively referred as Market Infrastructure Institutions (MIIs)) shall appoint an independent external agency to evaluate its performance and the performance of its statutory committees within such periodicity and in such a manner as may be specified by the Board.
2. In order to bring consistency and uniformity with respect to evaluations to be done by the external agency, it was felt that basic minimum standards and principles should be developed along with weightages. Accordingly, the matter was discussed at the Industry Standards Forum (ISF) of MIIs where the broad criteria, the weightage for each criterion, sub-parameters under each criterion, etc. were deliberated. For each sub-parameter, sample Key Performance Indicators (KPIs), both quantitative and qualitative in nature, were identified by SEBI in consultation with the ISF.
3. Based on the deliberations at the ISF of MIIs and subsequent internal deliberations, the broad framework with basic minimum criteria for independent external evaluation of performance of MIIs has been approved by the Board in its meeting held on June 27, 2024. The minimum criteria for the independent external evaluation of performance of MIIs and their weightages are as under:

S.N.	Criteria	Weightage
(i)	Resilience in technology and processes of MII, in delivery of its core functions.	40%
(ii)	Investor Education and Protection.	17%
(iii)	Efficient discharge of Regulatory role by MII.	15%
(iv)	Compliance with Regulatory Norms.	10%
(v)	Evaluation of Governance Practices.	8%
(vi)	Adequacy of Resources.	5%
(vii)	Fair access and treatment to all stakeholders and information disclosure.	5%

The above criteria may be subsequently reviewed, depending upon the evolving regulatory and operating context.

4. A broad framework in this regard, developed in consultation with ISF of MIIs is provided at [Annexure-A](#).

5. **Rating Framework**

- 5.1. In order to ensure consistency in the manner of assessment and outcomes across similar MIIs, compare performance of such MIIs and monitor trends over time, a rating framework has been developed which would be assigned after evaluation of the MIIs. The rating would reflect the Independent External Agency's judgment on the performance of the MII in respect of expected outcomes. The rating framework is provided at [Annexure-B](#).

6. **Principles for appointment of Independent External Agency:** The following principles shall be adhered to by the MIIs for selection of an independent external agency:

- 6.1. The Independent External Agency shall be appointed with prior No Objection Certificate (NOC) from SEBI and on such terms and conditions, including fees, timelines, etc. as may be approved by the Governing Board of the MII.
- 6.2. The Independent External Agency shall have requisite domain knowledge, experience and expertise on matters concerning the securities market and the functioning of the MII.

- 6.3. MII shall ensure that there is no conflict of interest in the appointment of the Independent External Agency and the Agency had not been employed/hired by the MII for the evaluation period and till submission of the report.

7. Timelines for External Evaluation

- 7.1. The independent external evaluation shall take place once in three years for each MII. In this regard, the following shall be ensured:
- a) The first independent external evaluation shall be only for the Financial Year (FY) 2024-2025. The report of the same shall be submitted to the Governing Board of the MII and SEBI by September 30, 2025.
 - b) The subsequent independent external evaluation(s) shall be for a block of next three FYs and so on. Upon completion, a report in this regard shall be submitted to the Governing Board of the MII and SEBI within 6 months from the end of the 3rd FY to be evaluated.

8. Performance Evaluation Metrics for KMPs including MD

- 8.1. Clause (k) of Part A under Schedule-II of the SECC Regulations, 2018 on Code of Conduct for Stock Exchanges and Clearing Corporations, *inter alia*, state that

“A recognised stock exchange and a recognised clearing corporation shall:

....

(k) Segregate roles and responsibilities of key management personnel within the stock exchange and clearing corporation including

i. Clearly mapping legal and regulatory duties to the concerned position

ii. Defining delegation of powers to each position

iii. Assigning regulatory, risk management and compliance aspects to business and support teams”

- 8.2. Further Clause u(iv) of Part B under Schedule – II of the SECC Regulations, 2018 on Code of Conduct for Governing Board, *inter alia*, states that

“Governing Board shall

.....

u. endeavour that the stock exchange and clearing corporation put in place key elements related to culture such as

.....

iv. performance management mechanisms which take into account adherence to culture, conduct and behavior related dimensions.”

Similar provisions as stated at paragraphs 8.1 and 8.2 above, also exist for depositories under the D&P Regulations, 2018.

- 8.3. Above provisions require MIIs to clearly define the roles & responsibilities and the Key Performance Indicators (KPIs) of each Key Management Personnel (KMP) and have performance management mechanisms for their evaluation. Further, these KPIs have to inculcate regulatory, risk management and compliance outcomes.
- 8.4. In order to effectively reflect the efforts of the Managing Director (MD) and KMPs towards outcomes of various functions under Verticals 1 (Critical Operations) and Vertical 2 (Regulatory, compliance, risk management and investor grievances), MIIs shall ensure that their internal performance evaluation metrics have allocated sufficient weightage for these outcomes.
- 8.5. The performance evaluation of MD should provide at least 50% weightage towards Verticals 1 and 2 related outcomes.
- 8.6. The performance evaluation of MD and KMPs shall include the minimum criteria as specified for the MIIs at **Annexure-A**. However, for KMPs the criteria and corresponding weightages may be adjusted depending upon the specific roles and responsibilities assigned to such KMPs.
9. **Applicability:** The provisions of this Circular shall come into force from **30th** day of its issuance.
10. The MIIs are directed to:
 - 10.1. take necessary steps and put in place necessary systems for the implementation of the above;
 - 10.2. make necessary amendments to the relevant bye-laws, rules and regulations, wherever applicable, for the implementation of the above; and
 - 10.3. bring the provisions of this circular to the notice of market participants (including investors) and also disseminate the same on their website.
11. This circular is issued in exercise of the powers conferred under Section 11(1) of the Securities and Exchange Board of India Act 1992 read with Regulation

51 of the Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) Regulations, 2018, Section 26(3) of the Depositories Act, 1996 and Regulation 97 of Securities and Exchange Board of India (Depositories and Participants) Regulations, 2018 to protect the interests of investors in securities and to promote the development of, and to regulate the securities market.

12. This circular is available on SEBI website at www.sebi.gov.in.

Yours faithfully,

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