Nomination and Remuneration policy of AMC Repo Clearing Limited

1) Introduction

AMC Repo Clearing Limited (hereinafter referred to as **"ARCL"** or **"the company"**) is governed by the Companies Act, 2013 and rules notified thereunder; the Securities Contracts (Regulation) Act, 1956 read with rules notified thereunder and the Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) Regulations, 2018 (hereinafter referred to as SCR (SECC) Regulations, 2018) including disclosure requirements and corporate governance norms as specified for listed companies to the extent applicable to stock exchanges/clearing corporations.

This Policy applies for nomination of and remuneration to the Directors and Key Managerial Personnel of ARCL.

2) Objective of this Policy are:

The Policy has been framed keeping in view the following objectives/purposes:

(a) the level and composition of remuneration is reasonable and sufficient to attract, retain and motivate Directors of the quality required to run the company successfully and to ensure long term sustainability of managerial persons and create competitive advantage; and

(b) relationship of remuneration to performance is clear and meets appropriate performance benchmarks; and

(c) remuneration payable to Key Managerial Personnel involves a balance between fixed and incentive pay reflecting short and long-term performance objectives appropriate to the working of the company and its goals and aligns with the long term interests of the company and its shareholders.

3) Constitution of the Nomination and Remuneration Committee

The Board has constituted the "Nomination and Remuneration Committee" of the Board.

4) Definitions:

'**Act**' means the Companies Act 2013 and includes the Rules framed thereunder, as may be amended from time to time.

'B**oard**' means the Board of Directors of the Company.

'**Committee**' means the Nomination and Remuneration Committee of the Company as constituted/ reconstituted by the Board of Directors of the Company, in accordance with the Act and provisions of Listing Regulations, 2015 and SECC Regulations, 2018.

'**Directors**' means Directors of the Company.

'**Fixed Remuneration**' includes fixed wages, contribution to Provident fund and allowances/ benefits.

‘**Independent Director**’ means a Director referred to in Section 149(6) of the Companies Act, 2013 and Regulation 16(1)(b) of the Listing Regulations, 2015.

Key Managerial Personnel’ (the “KMP”) as defined under section 2(51) of the Companies Act, 2013 means:
(i) the Chief Executive Officer or the Managing Director or Manager;
(ii) the Company Secretary;
(iii) Whole-time Director;
(iv) the Chief Financial Officer;
(v) such other officer, not more than one level below the directors who is in whole time employment, designated as key managerial personnel by the Board; and
(vi) any other person as may be prescribed

Further, as defined in Regulation 2 (1) (j) of the SECC Regulations, 2018 "Key Management Personnel" (KMP) includes a person serving as head of any department or in such senior executive position that stands higher in hierarchy to the head(s) of the department(s) in the recognised stock exchange, or any person who directly reports to Chief Executive Officer or to the Director on the governing board of the recognised stock exchange, or any person up to two levels below the Chief Executive Officer or Managing Director, or any other person as may be identified by its Nomination and Remuneration Committee.

Note: KMP’s includes the Senior Management Personnel of the Clearing Corporation. (as defined in the Listing Regulations, 2015)

‘**Public Interest Director**’ means an Independent Director, representing the interests of investors in securities market and who is not having any association, directly or indirectly, which in the opinion of the SEBI, is in conflict with his role.

‘**Remuneration**’ means any money or its equivalent given or passed to any person for services rendered by him and includes perquisites as defined under the Income-tax Act, 1961.

‘**Regulatory Department**’ refers to the following departments of the Company:

- Risk Management
- Membership
- Compliance

‘**SEBI**’ means the Securities and Exchange Board of India

Words and expressions used and not defined in this Policy, but defined in the Companies Act or any rules framed thereunder or the Securities and Exchange Board of India Act, 1992 and Rules and Regulations framed thereunder or in the Listing Regulations, 2015 or the Indian Accounting Standards shall have the meanings assigned to them in these acts/regulations/Rules/Standards.

5) General

This Policy is divided in three parts: -
Part – A: Terms of Reference for the Nomination and Remuneration Committee;
Part – B: Nomination of Directors and KMP’s; and
Part – C: Remuneration for Directors and KMP’s

Part A – Terms of Reference for Nomination and Remuneration Committee

Regulation 27 of Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) Regulations, 2018 (SECC Regulations) also mandates constitution of NRC to inter-alia determine the compensation of key management personnel in terms of compensation policy framed in accordance with the norms specified therein. The following are the terms of reference of NRC:-

a. Identification of persons who are qualified to become Directors and recommend to the Board their appointment and removal
b. Selecting the Managing Director.
c. Framing & reviewing the performance review policy to carry out evaluation of every director's performance, including that of Public Interest Director (PID).
d. Devising a policy on diversity of board of directors
e. Formulation of criteria for determining qualifications, positive attributes and independence of a director and recommend to the Board a policy, relating to the remuneration for the Directors, key managerial personnel and other employees
f. Recommending whether to extend the term of appointment of the PID.
g. Identifying a Key Management Personnel, other than personnel as specifically provided in its definition under SECC Regulations, 2018.
h. Determining the tenure of a key management personnel, other than a director, to be posted in a regulatory department.

Part – B: Nomination of Directors and KMP's

The Committee shall identify and ascertain the integrity, qualification, expertise and experience of the person for appointment as Director of the Company and recommend to the Board his / her appointment. A person to be appointed as Director or KMP should possess adequate qualification, expertise and experience for the position he / she is considered.

Composition of the Governing Board:

In terms of Regulation 23 (1) of the SEBI Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) Regulations, 2018 "SECC Regulations" the governing board of the company shall include:

I) Shareholder Director (SHD)
II) Public Interest Director (PID)
III) Managing Director (MD)

The chairperson of the governing board shall be elected by the governing board from amongst the PIDs. The number of PIDs shall not be less than the number of SHDs on the governing board of the company. The managing director shall be included in the category of shareholder directors.

Appointment of Public Interest Director:

Public Interest Director means an independent director representing the interests of investors in securities market and who is not having any association, directly or indirectly, which in the opinion of the Board, is in conflict with his role.

1) The committee shall recommend a person to be appointed as Public Director to the Board of Director

2) The committee shall ensure that PID are selected from diverse field of work. While deciding to propose a particular person as a public interest director, the stock exchange/ clearing corporation shall also take into account the following factors:

    a) Qualification in the area of law, finance, accounting, economics, management, administration or any other area relevant to the financial markets.
    b) Atleast one person shall be inducted having experience and background in finance / accounts who may preferably be inducted in the audit committee.
    c) Persons currently holding positions of trust and responsibility in reputed organisations or person who have retired from such positions.
    d) Persons who are likely to have interested positions in commercial contracts and financial affairs of stock exchanges, may preferably be excluded. Persons who are regular traders/ speculators in the market or are director in the board of the promoter entity of the Stock Exchange or Clearing Corporation, shall be excluded.
    e) No trading member or clearing member or their associates and agents, irrespective of the stock exchange / clearing corporation of which they are members, shall be on the governing board of any recognised stock exchange or recognised clearing corporation.

       Independent directors of the associates of Public Financial Institution or Bank in public sector, who are clearing member and/or trading member and where the majority shareholding is that of such public Financial institution or bank in the public sector, shall not be deemed to be a clearing member and / or trading member.

3) The names of persons to be appointed as PID shall first be approved by the governing board, before submitting the same to SEBI for approval. The Shareholders approval shall not be necessary for appointment of PID.
4) A minimum of two names shall be submitted to SEBI for each vacancy of PID.
5) Maximum age limit for PID shall be 70 years
6) Public interest directors shall be nominated for a term of three years, extendable by another term of three years, subject to performance review

The PIDs shall comply with the code of ethics and code of conduct as prescribed by the company.

<u>Appointment of Shareholder Director</u>:

As per regulation 22 C of SECC Regulations, the representative of the issuers of debt securities may be appointed on the governing board of the recognized limited purpose clearing corporation on a rotational basis and such a director shall be deemed to be a shareholder director.

Explanation. — For the purpose of this sub-regulation, representative of issuers of debt securities during a financial year shall be one amongst the top three issuers, which are public sector undertakings, based on their issue size in the preceding financial year.

1) Company shall identify top three issuers of debt securities during a financial year and subsequently to approach them for nomination of shareholder director
2) The committee shall recommend a person to be appointed as Shareholder Director to the Board of Director
3) The names of persons to be appointed as shareholder directors shall first be approved by the governing board, followed by shareholders' approval before submitting the same to SEBI for approval.
4) Shareholder Director shall be appointed every year on rotational basis
5) The appointment and re-appointment of all shareholder directors shall be with the prior approval of SEBI.

The procedure for selection of shareholder director is Annexed as **Annexure 1** subject to approval of SEBI.

<u>Appointment of Managing Director</u>:

As per Chapter V of SECC Regulations on Governance of Stock Exchanges and Clearing Corporations, the governing board of every recognised clearing corporation shall include Managing Director.

1) The MD shall be selected through open advertisement in all editions of at least one national daily from amongst persons qualified in the fields of capital market/ finance/ management and possessing sufficient experience.
2) Nomination and Remuneration Committee (NRC) shall be responsible for selection of Managing Director.
3) NRC shall determine the qualification, manner of appointment, terms and conditions of appointment and other procedural formalities associated with the selection/ appointment of the MD
4) At the time of seeking approval of SEBI for the appointment of the managing director, the stock exchange/ clearing corporation shall seek approval for the compensation of the managing director from the SEBI

5) At least two names for the post of MD, without any order of preference, shall be forwarded to SEBI for approval.
6) Term of appointment of MD should not exceed five years. A person may be appointed as the Managing Director by the company for a maximum of two terms not exceeding five years each, subject to a maximum age limit of sixty five years.
7) Age limit for appointment of MD is upto 65 years of age.

Appointment of KMP's:

Any selection, appointment/ re-appointment and tenure of a KMP of the Company shall be governed by the provisions of the Act, the Listing Regulations, 2015, the SECC Regulations, 2018 and other applicable laws from time to time.

The tenure of KMP's in a regulatory department would be till he/ she ceases to be the employee of the Company. However, the same shall be reviewed every 3 years unless any other tenure is specifically decided by the Committee.

Retirement / Resignation / Removal of Director/KMP's:

Directors and KMP's shall retire/cease to hold office as per the applicable provisions of the Companies Act, 2013, Listing Regulation, 2015, SECC Regulation, 2018 and the prevailing policy of the Company or in terms of which such appointment was made.

Owing to disqualifications for any reasons mentioned in the Act or rules made thereunder or under any other Act, Rules and Regulations as may be applicable and subject to the prevailing HR Policy of the Company, the Committee may recommend, to the Board, with reasons recorded in writing, removal of a Director/KMP, subject to the provisions and compliance of the said Act, rules and regulations.

The Board will have the discretion to extend the term of a KMP, even after his/her attaining the age of superannuation, for the benefit of the Company.

Part-C: Remuneration to Directors and KMP's;

As per Section 178 of the Companies Act, 2013, regulation 19 of SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015 and Regulations 27 of Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) Regulations, 2018, the Nomination and Remuneration committee is required to recommend to the Board a policy relating to the remuneration for the Directors and Key Managerial Personnel.

1) Factors Determining Remuneration

a) financial condition / health of the company including revenues, net profits and other relevant financial parameters, if any
b) average levels of compensation payable to employees in similar ranks, in the industry and industry standards
c) shall not contain any provisions regarding incentives to take excessive risks over the short term,
d) Role and responsibilities of the Director / KMP / Employees
e) Performance of the KMP
f) Attract and retain KMP / Employees and motivate them to achieve results with integrity and fairness, etc.

2) Compensation Structure

The Board of Directors of the Company shall decide the remuneration of Executive / Non-Executive Directors and KMP on the basis of recommendation of the Committee subject to the overall limits provided under the Companies Act, 2013 and rules made thereunder, including any amendments, modifications and re-enactments thereto and in compliance with the provisions of the Act, SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 and SECC Regulations as applicable from time to time.

A) Directors

<u>Public Interest Director and Shareholder Director:</u>

The PIDs and SHDs shall be paid for Board Meetings and any Committee Meetings attended by them. The board of the company, in its meeting held on 09th December 2021, had approved the following sitting fees to the directors for the board and committee meetings:

For Board Meeting	: Rs.1,00,000 per meeting
For Committee Meeting	: Rs.50,000 per meeting

The above fee structure shall continue to be followed by the company. Any change in sitting fees will be recommended by the Committee and approved by the Board, if made within the limits prescribed under the Companies Act, 2013 for payment of sitting fees.

The Board considers the following factors while approving the change in the sitting fees to the Board/Committee members:

(a) Contribution expected from Directors considering size and complexity of organization;
(b) Comparison with the peers/ Industry benchmarking;
(c) Regulatory guidelines as applicable etc.

The Non-Executive Directors are also entitled to reimbursement of expenses for attending the Board and other Committee meetings including travelling, boarding and lodging expenses, shall be paid by the Company.

B) Key Managerial Personnel

The Committee shall recommend the remuneration of other KMP's to the Board for its approval, taking into consideration the following factors:

a) Value added from time to time / their contribution to the Organization growth.
b) Financial condition / health of the Clearing Corporation.
c) Comparability to the industry standards
d) Revenues, net profit of the Clearing Corporation;
   - average levels of compensation payable to employees in similar ranks
   - periodic review
e) Ensure that the variable component of the remuneration of other KMP's is basis the Performance rating as per the matrix adopted by the Company which under any circumstances does not exceed one third of the fixed remuneration.
   - 50% of the variable component of the remuneration is paid only after the audited annual accounts for the year are approved by the Board of Directors and also subject to such payment being approved by the Board; and
   - the balance 50% of the variable pay will be paid on a deferred basis after three years.

   The payment of the entire variable component is subject to the provisions of 'malus' and/or 'clawback' provisions, as defined hereinafter.
f) No incentives are provided for excessive risks in the short term.

ESOPs and other equity linked instruments in the clearing corporation shall not be offered or provided as a part of the compensation to the key management personnel.

Any financial disincentive specified by SEBI and/or any other regulatory/statutory authority shall be applicable to KMP's.

Any change in the remuneration of the KMP's shall be recommended by the Committee to the Board for its approval.

Malus and Clawback Provisions:
A malus arrangement permits the clearing corporation to prevent vesting of all or part of the amount of a deferred variable component.

A clawback is a contractual agreement between the employee and the clearing corporation in which the employee agrees to return previously paid or vested variable component to the clearing corporation under certain circumstances.

The aforesaid clauses shall be triggered under the following circumstances:

a. Fraud
b. Impersonation
c. Gross negligence which have caused or may cause significant financial loss or reputational harm to the Company
d. Misfeasance
e. Any act amounting to criminal breach of trust
f. Conviction for an offence involving moral turpitude

g. Breach of confidentiality in trade secret
h. Ethical misconduct
i. Fraudulent financial reporting
j. Overstating or misstating financial indicators or of the performance criteria either at the Company level or individual level with a view to get increased variable pay
k. Non-compliance or insubordination in adhering to regulatory/policy guidelines
l. Such other circumstances as the Committee and/or Board may decide.

General parameters to consider increase in the remuneration:

The salary increment budget would be ascertained by the Committee / Board every year, based on following parameters:

1. Company performance during the Financial Year;
2. Employee appraisal rating scale provided by HR;
3. Consumer Price Index.

C) Remuneration of other Employees of the Company:

Employees shall be assigned grades according to their qualifications and work experience, competencies as well as their roles and responsibilities in the organization. Individual remuneration shall be determined within the appropriate grade and shall be based on various factors such as job profile, skill sets, seniority, experience and prevailing remuneration levels for equivalent jobs.

ESOPs and other equity linked instruments in the clearing corporation shall not be offered or provided as a part of the compensation to the employees.

Note: In the event of any conflict between the provisions of this Policy and of the SECC Regulations, 2018, the Companies Act, 2013 and rules made thereunder and the Listing Regulations, 2015, the provisions of the SECC Regulations, 2018, the Companies Act, 2013 and rules made thereunder and the Listing Regulations, 2015 shall prevail over this Policy.

POLICY REVIEW:

This Policy shall be reviewed by the Nomination and Remuneration Committee as and when required or at least once in 2 years and changes made therein, if any, shall be approved by the Board.

Annexure 1: - The Procedure for Selection of Shareholder Director from Public Sector Undertakings

As per Regulation 22 (c) of Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) Regulations, 2018 “SECC Regulations 2018”, the representative of the issuers of debt securities may be appointed on the governing board of the recognized limited purpose clearing corporation on a rotational basis and such a director shall be deemed to be a shareholder director.
Explanation. — For the purpose of this sub-regulation, representative of issuers of debt securities during a financial year shall be one amongst the top three issuers, which are public sector undertakings, based on their issue size in the preceding financial year.

The term public sector undertaking or Enterprise refers to a Government Company. “Government Company” is defined under Section 2 (45) of the Companies Act, 2013 as Any company in which not less than fifty-one per cent of the paid-up share capital is held by the Central Government, or by any State Government or Governments, or partly by the Central Government and partly by one or more State Governments, and includes a company which is a subsidiary company of such a Government company. The term is not intended to mean a public company (where shares are freely transferable and can have a shareholder base of more than 200 people) though public sector enterprises are mostly public companies.

Public Sector undertakings refer to commercial ventures of the Government where user fees are charged for services rendered. The tariff/fees may be market based or subsidised. They are usually fully owned and managed by the Government such as Railways, Posts, Defence Undertakings, Banks etc.

<u>Procedure for appointment of PSU director: -</u>

1) The period of appointment of PSU Director will be for one year from the date of approval by SEBI for the appointment of a shareholder director.

2) The selection of a director from PSU is based in the top three issuers in the previous financial year based on the proportion in terms of quantum issued during the previous financial year.

The data on the top 3 PSU issuers will be sourced from NSE and BSE. Mail will be sent to NSE and BSE for the top 3 PSU issuers along with the issue size.

The issuer with largest issue size will be the first choice and accordingly a mail will be sent to the top 3 issuers for their consent on the choice of the first largest issuer as shareholder director (if not willing, the second largest issuer and then the third largest issuer).

After getting the consent from all the three issuers, a mail will be sent to the selected issuer to nominate a representative at senior management level on the board of ARCL as shareholder director. The name of the proposed shareholder director will be put up to Nomination and Remuneration Committee and then board for their approval followed by the approval of Shareholders in the Annual General Body Meeting (AGM).

After approval by shareholders, the nomination will be sent to SEBI for approval.