



MASTER CIRCULAR

SEBI/HO/MRD/DP/CIR/P/118

October 25, 2019

To,

All Recognized Depositories

Dear Sir / Madam,

Subject: Master Circular for Depositories

1. Securities and Exchange Board of India (SEBI), from time to time, has been issuing various circulars/directions to Depositories. In order to enable the users to have an access to all the applicable circulars/directions at one place, Master Circular for Depositories has been prepared.
2. This Master Circular is a compilation of the relevant circulars/communications issued by SEBI up to March 31, 2019 and shall come into force from the date of its issue. References in the circular to the Statutes/Regulations which now stand repealed, have been suitably updated.
3. The Master Circular is a compilation of all the existing/applicable circulars issued by Market Regulation Department of SEBI pertaining to Depositories. Efforts have been made to incorporate applicable provisions of existing circulars issued by other Departments of SEBI relevant to Depositories.
4. In case of any inconsistency between the Master Circular and the applicable circulars, the content of the relevant circular shall prevail.



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5. This Master Circular shall supersede previous Master Circular SEBI/HO/MRD/DP/CIR/P/2016/134 dated December 15, 2016 and is available on SEBI website at www.sebi.gov.in.

Yours faithfully

Amit Tandon
General Manager



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Section 1: Beneficial Owner (BO) Accounts

1.1 Opening of BO Account by non body corporates

1.1.1 Proof of Identity (PoI)

- i. **Permanent Account Number (PAN) to be the sole identification number for all transactions in the securities market¹**

With effect from July 02, 2007, PAN is the sole identification number for all transactions in the securities market, irrespective of the amount of transaction. A copy of the PAN card with photograph may be accepted as Proof of Identity. In this regard, intermediaries shall:-

- a. Put necessary systems in place so that the databases of the clients and their transactions are linked to the PAN details of the client.
- b. Build necessary infrastructure to enable accessibility and query based on PAN thereby enabling retrieval of all the details of the clients.
- c. Collect copies of PAN cards issued to the existing as well as new clients by the Income Tax Department and maintain the same in their record after verifying with the original.
- d. Cross-check the aforesaid details collected from their clients with the details on the website of the Income Tax Department i.e. <http://incometaxindiaefiling.gov.in/challan/enterpanforchallan.jsp>².

List of documents admissible as Proof of Identity³

- a. Unique Identification Number (UID) (Aadhaar)/ Passport/ Voter ID card/ Driving license.
- b. PAN card with photograph.
- c. Identity card/ document with applicant's Photo, issued by any of the following: Central/State Government and its Departments,

¹ Reference: Circular MRD/DoP/Cir-5/2007 dated April 27, 2007

² Income Tax Department since changed the link for verification to:

<https://incometaxindiaefiling.gov.in/e-Filing/Services/KnowYourPanLink.html>

³ Reference: Circular MIRSD/SE/Cir-21/2011 dated October 05, 2011



Statutory/Regulatory Authorities, Public Sector Undertakings, Scheduled Commercial Banks, Public Financial Institutions, Colleges affiliated to Universities, Professional Bodies such as ICAI, ICWAI, ICSI, Bar Council etc., to their Members; and Credit cards/Debit cards issued by Banks.

- d. e-KYC service launched by UIDAI shall also be accepted as a valid process for KYC verification. The information containing the relevant client details and photograph made available from UIDAI as a result of e-KYC process shall be treated as a valid proof of Identity.⁴
- e. With a view to bring about operational flexibility and in order to ease the PAN verification process, the intermediaries may verify the PAN of their clients online at the Income Tax website without insisting on the original PAN card, provided that the client has presented a document for Proof of Identity other than the PAN card.⁵

1.1.2 **Proof of Address (PoA)⁶**

List of documents admissible as Proof of Address:

(*Documents having an expiry date should be valid on the date of submission.)

- a. Passport/ Voters Identity Card/ Ration Card/ Registered Lease or Sale Agreement of Residence/ Driving License/ Flat Maintenance bill/ Insurance Copy.
- b. Utility bills like Telephone Bill (only land line), Electricity bill or Gas bill - Not more than 3 months old.
- c. Bank Account Statement/Passbook -- Not more than 3 months old.
- d. Self-declaration by High Court and Supreme Court judges, giving the new address in respect of their own accounts.
- e. Proof of address issued by any of the following: Bank Managers of Scheduled Commercial Banks/Scheduled Co-Operative Bank/Multinational Foreign Banks/Gazetted Officer/Notary public/elected representatives to the Legislative Assembly/Parliament/Documents issued by any Govt. or Statutory

⁴ Reference: Circular SEBI/MIRSD/09/2013 dated October 08, 2013

⁵ Reference: Circular SEBI/MIRSD/01/2013 dated January 04, 2013

⁶Reference: Circular MIRSD/SE/Cir-21/2011 dated October 05, 2011



Authority.

- f. Identity card/document with address, issued by any of the following: Central/State Government and its Departments, Statutory/Regulatory Authorities, Public Sector Undertakings, Scheduled Commercial Banks, Public Financial Institutions, Colleges affiliated to Universities and Professional Bodies such as ICAI, ICWAI, ICSI, Bar Council etc., to their Members.
- g. For FII/sub account, Power of Attorney given by FII/sub-account to the Custodians (which are duly notarized and/or apostiled or consularised) that gives the registered address should be taken.
- h. The proof of address in the name of the spouse may be accepted.
- i. Aadhaar Letter issued by UIDAI shall be admissible as Proof of Address in addition to Proof of Identity.⁷
- j. e-KYC service launched by UIDAI shall also be accepted as a valid process for KYC verification. The information containing the relevant client details and photograph made available from UIDAI as a result of e-KYC process shall be treated as a valid proof of address.⁸

DP shall ensure that all documents pertaining to proof of identity and proof of address are collected from all the account holders.⁹ Submission of the aforesaid documents is the minimum requirement for opening a BO Account. DPs must verify the copy of the aforementioned documents with the original before accepting the same as valid. While opening a BO Account, DPs shall exercise due diligence¹⁰ while establishing the identity of the person to ensure the safety and integrity of the depository system.

1.1.3 Clarification on voluntary adaptation of Aadhaar based e-KYC process¹¹

SEBI has enabled Aadhaar based e-KYC service offered by UIDAI for KYC

⁷Reference: Circular MIRSD/09/2012 dated August 13, 2012

⁸ Reference: Circular SEBI/MIRSD/09/2013 dated October 08, 2013

⁹ Reference: Circular MRD/DoP/Dep/Cir-29/2004 dated August 24, 2004

¹⁰ Reference: Point 5 of part II on 'Customer Due Diligence' of master circular no. ISD/AML/CIR-1/2008 dated December 19, 2008

¹¹ Reference: Circular SEBI/MIRSD/09/2013 dated October 08, 2013



verification. Intermediaries have sought clarifications from SEBI on certain operational aspects of the same. It is clarified that for accessing the details enabling client identification and authentication from UIDAI based on client authorisation, on voluntary basis, intermediaries who utilize the services of KYC Service Agencies (KSAs) would be registered as KYC User Agencies (KUA) with UIDAI.¹²

- i. For entering into account based relationship, the client may provide the following information to the intermediary:
 - a) Name
 - b) Aadhaar number
 - c) Permanent Account Number (PAN)
- ii. The above information can be provided by the client electronically including through any web enabled device.
- iii. The intermediary shall perform verification of the client with UIDAI through biometric authentication (fingerprint or iris scanning). Mutual Funds can also perform verification of the client with UIDAI through One Time password (OTP) received on client's mobile number or on e-mail address registered with UIDAI provided, the amount invested by the client does not exceed Rs. 50,000 per financial year per Mutual Fund and payment for the same is made through electronic transfer from the client's bank account registered with that Mutual Fund.
- iv. PAN of such client is to be verified from the income tax website.
- v. After due validation of Aadhaar number provided by the client, the intermediary (acting as KUA) shall receive the KYC information about the client from UIDAI through KSA.
- vi. The information downloaded from UIDAI shall be considered as sufficient information for the purpose of KYC verification. The intermediary shall upload this KYC information on the KRA system in terms of KRA Regulations.

¹² Reference: Circular: CIR/MIRSD/29/2016 dated January 22, 2016



- vii. In case material difference is observed either in the name (as observed in the PAN vis-a-vis Aadhaar) or photograph in Aadhaar is not clear, the intermediary shall carry out additional due diligence and maintain a record of the additional documents sought pursuant to such due diligence.
- viii. The records of KYC information so received shall be maintained by the intermediary as per the SEBI Act, Regulations and various circulars issued thereunder.

1.1.4 SARAL Account Opening Form for resident individuals¹³

- i. It is gathered that a majority of new investors in the securities market begin with participation in the cash segment without obtaining various other facilities such as internet trading, margin trading, derivative trading and use of power of attorney.
- ii. The account opening process can be simplified for such individual investors. With a view to encourage their participation, it is, therefore, decided that such individual investors can open a trading account and demat account by filling up a simplified Account Opening Form ('AOF') termed as 'SARAL AOF' given at [Annexure A](#). This form will be separately available with the intermediaries and can also be downloaded from the Exchanges' and Depositories' website. The investors who open account through SARAL AOF will also have the option to obtain other facilities, whenever they require, on furnishing of additional information as per prescribed regulations/circulars.
- iii. The standard set of documents viz. Rights and Obligations document, Uniform Risk Disclosure Document and Guidance Note and documentary proof related to identity and address as specified in SEBI Circulars dated August 22, 2011 and October 5, 2011 shall continue to remain applicable. It is further clarified that the provisions laid down under the PML Act, PML Rules, SEBI Master Circular on AML dated December 31, 2010 and SEBI Circular on AML dated March 12, 2014 shall also continue to remain

¹³ Reference Circular MIRSD/1/2015 dated March 04, 2015



applicable for set of individual investors mentioned in paragraph (ii) above.

- iv. For these set of individual investors, it has been decided to simplify the requirement of submission of 'proof of address'. The matter has been examined in the light of amendment to the PML Rules, 2005 and accordingly, the requirement of submission of 'proof of address' is as follows:
 - a. Henceforth, individual investor may submit only one documentary proof of address (either residence/correspondence or permanent) while opening a trading account and / or demat account or while undergoing updation.
 - b. In case the proof of address furnished by the said investor is not the address where the investor is currently residing, the intermediary may take a declaration of the residence/correspondence address on which all correspondence will be made by the intermediary with the investor. No proof is required to be submitted for such correspondence/residence address. In the event of change in this address due to relocation or any other reason, investor may intimate the new address for correspondence to the intermediary within two weeks of such a change. The residence/correspondence address and any such change thereof may be verified by the intermediary through 'positive confirmation' such as (i) acknowledgment of receipt Welcome Kit/ dispatch of contract notes / any periodical statement, etc. (ii) telephonic conversation; (iii) visits, etc.

1.1.5 Clarifications with regard to KYC requirement for eligible Foreign Investors¹⁴

- i. SEBI has received representations regarding operational issues in the implementation of SEBI circulars No CIR/MIRSD/16/2011 dated August 22, 2011 and MIRSD/SE/Cir-21/2011 dated October 5, 2011 on know your client norms for the securities market SEBI Circulars in case of foreign

¹⁴ Reference CIR MIRSD/11/2012 dated September 05, 2012 and CIR MIRSD/07/2013 dated September 12, 2013



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- investors viz. Foreign Institutional Investors, Sub Accounts and Qualified Foreign Investors. In consultation with the Stock Exchanges, Depositories and Intermediaries, certain clarifications are issued, as given in Annexure A, with respect to these investors.
- ii. Eligible foreign investors investing under Portfolio Investment Scheme ('PIS') route shall be classified as Category I, II and III as provided in Annexure B. The intermediary shall follow risk based Know Your Client norms. Accordingly, certain clarifications are hereby issued, as given in Annexure C, based on the category of these investors.
- iii. Eligible foreign investors investing under PIS route shall be subject to KYC review as and when there is any change in material information / disclosure.

Annexure A

Sr No.	Relevant requirements on KYC Form as per SEBI Circulars dated August 22, 2011 and October 5, 2011	Clarifications for Foreign Investors viz. FIIs, Sub Accounts and QFIs
1.	Authorized signatories list with specimen signatures to be submitted.	If the client has authorized the Global Custodian - an entity regulated by an appropriate foreign regulatory authority or Local Custodian registered with SEBI as a signatory by way of a Power of Attorney ('PoA') to sign on its behalf, such PoA may be accepted.
2.	Intermediary has to get the KYC form filled from the clients.	The Global Custodian or the Local Custodian may fill the KYC form, if authorized through the PoA.
3.	PAN to be taken for individual promoters holding control - either directly or indirectly,	Not applicable.



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	Partners/Trustees, whole time directors/two directors in charge of day to day operations and persons authorized to deal in securities on behalf of company/firm/others.	
4.	For foreign nationals, (allowed to trade subject to RBI and FEMA guidelines), copy of passport/PIO Card/OCI Card is mandatory.	Proof of Identity document duly attested by the entities authorized for the same as per SEBI Circular dated October 5, 2011 or authorised signatories as mentioned at point 1 above may be adequate in lieu of the passport copy.
5.	For foreign entities, CIN is optional; and in the absence of DIN no. for the directors their passport copy should be given.	<p>CIN no. is provided as an example and requires the client's registration number in its respective country. If the foreign entity does not have CIN, the equivalent registration number of the entity may be mentioned. If it does not have any registration number, then SEBI Registration number may be mentioned.</p> <p>In case the directors (as per point 3 above), of the client do not have an equivalent of DIN in the client's respective jurisdiction, "Not Applicable" may be stated. Copy of the Passport may not be provided.</p>
6.	It shall be mandatory for all the Intermediaries addressed in this circular to carry out In person verification of their clients.	<p>In person verification is not applicable for a non-individual Client.</p> <p>In case of QFI - Individual Client, IPV shall be carried out by SEBI</p>



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		registered intermediary as per SEBI Circular dated August 22, 2011.
7.	<p>Copies of all the documents submitted by the applicant should be self-attested and accompanied by originals for verification.</p> <p>In case the original of any document is not produced for verification, then the copies should be properly attested by entities authorized for attesting the documents, as per the list mentioned in the circular dated Aug 22, 2011.</p>	<p>In the absence of originals for verification, documents may be attested as per SEBI Circulars dated August 22, 2011 and October 5, 2011 or authorised signatories as mentioned at point 1 above.</p>
8.	<p>A. Copy of the balance sheets for the last 2 financial years (to be submitted every year), annual gross income and net worth details.</p> <p>B. Copy of latest share holding pattern including list of all those holding control, either directly or indirectly, in the company in terms of SEBI takeover Regulations, duly certified by the company secretary/Whole time director/MD (to be submitted every year). POI and POA of individual promoters holding control - either directly or indirectly.</p>	<p>A. Though it is not mandatory, the intermediaries shall carry out due diligence as per the PMLA and SEBI Master Circular on AML about the financial position of the client.</p> <p>B. List of beneficial owners with shareholding or beneficial interest in the client equal to or above 25% to be obtained. If Global Custodian /Local Custodian provides an undertaking to submit these details, then intermediary may take such undertaking only. Any change in the list to be obtained based on risk profile of the client.</p>
9.	Name, residential address, photograph, POI and POA of	A. Not required if Global Custodian /Local Custodian gives an



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	Partners/Trustees, whole time directors/two directors in charge of day to day operations and individual promoters holding control - either directly or indirectly.	undertaking to provide the following documents as and when requested for by intermediary: 1 A resolution from the Board of Directors and power of attorney granted to its managers, officers or employees to transact on its behalf; and 2 An officially valid document in respect of managers, officers or employees holding an attorney to transact on its behalf. B. If Global Custodian/Local Custodian does not provide such undertaking as stated in A above, intermediary shall take required details from Foreign Investors.
10.	Copy of SEBI registration certificate to be provided.	Custodian shall verify the SEBI registration certificate copy with the originals or with the details available on SEBI website and provide duly certified copy of such verified SEBI registration certificate to the intermediary.
11.	Every client has to provide the trading account related details, as required by Annexure 3 to the SEBI circular dated August 22, 2011.	Annexure 3 to the circular dated August 22, 2012 pertaining to trading account related details is not applicable for FIIs and Sub Accounts. However, Intermediaries are required to update details of any action taken or proceedings initiated against the entity by the foreign regulators or SEBI/ Stock exchanges.



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		For QFI, the intermediary shall collect the following details from Annexure 3: <ul style="list-style-type: none">• Bank Account details• Depository account• Regulatory Actions as mentioned above
12.	Intermediary shall provide a set of all the executed documents to the client, free of charge.	Intermediary shall display these standard documents prescribed by SEBI on its web site, intimate the clients regarding the link and email a copy of the same to the client.
13.	Place of incorporation	If place of incorporation is not available, Intermediary should take Registered office address/ principal place of business of entity.
14.	Date of commencement of business	Not applicable
15.	Copies of the Memorandum and Articles of Association and certificate of incorporation	If FII or Sub Account does not have certificate of Incorporation or Memorandum and Articles of Association, then any reasonable equivalent legal document evidencing formation of entity may be allowed.
16.	Copy of the Board Resolution for investment in securities market.	Not applicable.

Exemptions -

In case of Sovereign Wealth Fund, Foreign Governmental Agency, Central bank, International or Multilateral organization and Central or State



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Government Pension Fund, the intermediary shall satisfy itself about their status and thereafter, only provisions at point 9 above shall be applicable. Further, these entities shall also be a part of KRA centralised system of KYCs.

Annexure B

Category	Eligible Foreign Investors
I.	Government and Government related foreign investors such as Foreign Central Banks, Governmental Agencies, Sovereign Wealth Funds, International/ Multilateral Organizations/ Agencies.
II.	<p>a) Appropriately regulated broad based funds such as Mutual Funds, Investment Trusts, Insurance / Reinsurance Companies, Other Broad Based Funds etc.</p> <p>b) Appropriately regulated entities such as Banks, Asset Management Companies, Investment Managers/ Advisors, Portfolio Managers etc.</p> <p>c) Broad based funds whose investment manager is appropriately regulated.</p> <p>d) University Funds and Pension Funds</p> <p>e) University related Endowments already registered with SEBI as FII/Sub Account</p>
III.	All other eligible foreign investors investing in India under PIS route not eligible under Category I and II such as Endowments, Charitable Societies/Trust,



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	Foundations, Corporate Bodies, Trusts, Individuals, Family Offices, etc.
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Annexure C

Document Type		Category - I	Category - II	Category - III
Entity level	Constitutive Docs	Required	Required	Required
	Proof of Address	Required Power of Attorney, mentioning the address, is acceptable as address proof	Required Power of Attorney, mentioning the address, is acceptable as address proof	Required - Address proof other than Power of Attorney should be submitted.
	PAN Card	Required	Required	Required
	Financials	Exempt	Exempt	Risk based - Financial data sufficient.
	SEBI Registration Certificate	Required	Required	Required
	Board Resolution	Exempt	Required	Required
	KYC Form	Required	Required	Required
Senior Management (Whole Time)	List	Required	Required	Required
	Proof Of Identity	Exempt	Exempt	Entity declares on



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Directors/ Partners/ Trustees/ etc.)				letterhead - full name, nationality and DoB OR Photo-identity proof'
	Proof of Address	Exempt	Exempt	Declaration on letter head
	Photographs	Exempt	Exempt	Exempt
Authorized Signatories	List & Signatures	Required - List of Global Custodian ('GC') signatories can be given in case of POA to GC	Required - List of GC signatories can be given in case of POA to GC	Required
	Proof Of Identity	Not required	Not required	Not required
	Proof of Address	Not required	Not required	Not required
	Photographs	Not required	Not required	Required
Ultimate Beneficial Owner ('UBO')	List	Exempt	Required - Can declare "no UBO over 25%"	Required
	Proof Of Identity	Exempt	Exempt	Required
	Proof of Address	Exempt	Exempt	Exempt
	Photographs	Exempt	Exempt	Exempt



1.1.6 Acceptance of third party address as correspondence address¹⁵

- i. SEBI has no objection to a BO authorizing the capture of an address of a third party as a correspondence address, provided that the Depository Participant (DP) ensures that all prescribed 'Know Your Client' norms are fulfilled for the third party also. The DP shall obtain proof of identity and proof of address for the third party. The DP shall also ensure that customer due diligence norms as specified in Rule 9 of Prevention of Money Laundering Rules, 2005 are complied with in respect of the third party.
- ii. The depository participant should further ensure that the statement of transactions and holding are sent to the BO's permanent address at least once in a year.
- iii. However, the above provision shall not apply in case of PMS (Portfolio Management Services) clients.

1.2 Exemptions from and clarifications relating to mandatory requirement of PAN

1.2.1 Mandatory requirement of Permanent Account Number (PAN)¹⁶

The demat accounts for which PAN details have not been verified are "suspended for debit" until the same is verified with the Depository Participant (DP). With effect from August 16, 2010 such PAN non-compliant demat accounts were also "suspended for credit" other than the credits arising out of automatic corporate actions. It was clarified that other credits including credits from IPO/FPO/Rights issue, off-market transactions or any secondary market transactions would not be allowed into such accounts.

1.2.2 Central and State Government and officials appointed by Courts¹⁷

¹⁵ Reference: Circular CIR/MRD/DP/37/2010 dated December 14, 2010

¹⁶ Reference: Circular MRD/DP/22/2010 dated July 29, 2010



PAN card may not be insisted upon in case of transactions undertaken on behalf of Central Government and/or State Government and where transactions are conducted by officials appointed by Courts e.g. Official liquidator, Court receiver etc.¹⁸

However DPs, before implementing the above exemption, shall verify the veracity of the claim of the organizations by collecting sufficient documentary evidence in support of their claim for such an exemption.

1.2.3 Investors in Sikkim¹⁹

Investors residing in the state of Sikkim are exempted from the mandatory requirement of furnishing PAN card details for their demat accounts.²⁰ DPs shall verify the veracity of the claim of the investors that they are residents of Sikkim, by collecting sufficient documentary evidence in support of their address

1.2.4 UN entities and multilateral agencies exempt from paying taxes/ filling tax returns in India²¹

UN entities/ multilateral agencies exempt from paying taxes/filing tax returns in India are also exempt from the mandatory requirement of submitting their PAN card details, subject to the DPs collecting documentary evidence in support of such claims.

1.2.5 FIIs/Institutional Clients²²

Custodians shall verify the PAN card details of institutional clients with the original PAN card and provide duly certified copies of such verified

¹⁷ Reference: Circular MRD/DoP/Cir-20/2008 dated June 30, 2008

¹⁸ Reference: Rule 114C (1)(c) of Income Tax Rules

¹⁹ Reference: Circular MRD/DoP/Dep/Cir-09/06 dated July 20, 2006

²⁰ Reference: Hon'ble High Court of Sikkim judgment dated March 31, 2006

²¹ Reference Circular MRD/DoP/Dep/Cir-09/06 dated July 20, 2006

²² Reference Circular MRD/DoP/Dep/SE/Cir-13/06 dated September 26, 2006



PAN details to the brokers. This requirement is applicable in respect of institutional clients, namely, FIIs, MFs, VCFs, FVCIs, Scheduled Commercial Banks, Multilateral and Bilateral Development Financial Institutions, State Industrial Development Corporations, Insurance Companies registered with IRDA and Public Financial Institution as defined under section 4A of the Companies Act, 1956.

1.2.6 HUF, Association of Persons (AoP), Partnership Firm, unregistered Trust, Registered Trust, Corporate Bodies, minors, etc.¹⁵

The BO account shall be in the name of natural persons, PAN card details of the respective HUF, AoP, Partnership Firm, Unregistered Trust, etc shall be obtained. The PAN number of Registered Trust, Corporate Bodies and minors shall be obtained when accounts are opened in their respective names.

1.2.7 Difference in maiden name and current name of investors.¹⁵

DPs can collect the PAN card proof as submitted by the account holder subject to the DPs verifying the veracity of the claim of such investors by collecting sufficient documentary evidence in support of the identity of the investors.²³

1.2.8 NRI/PIOs²⁴

Citizens of India residing outside India, foreign citizens and other persons (like companies/ trusts/ firms) having no office of their own in India may obtain PAN card based on the copy of their passport as ID proof and a copy of passport/ bank account in the country of residence as address proof, based on the Directorate of Income Tax (Systems) guidelines.²⁵

1.2.9 Foreign Portfolio Investors²⁶

²³ Reference Circular MRD/DoP/Dep/Cir-29/2004 dated August 24, 2004

²⁴ Reference Circular MRD/DoP/Dep/SE/Cir-17/06 dated October 27, 2006

²⁵ Reference Income Tax (Systems) PAN Circular No. 4 dated October 11, 2006

²⁶ Reference: Circular CIR/IMD/FPIC/123/2016 dated November 17, 2016



PAN verification process at the time of account opening of FPIs, it is decided that the intermediaries can verify the PAN of FPIs online from website authorised by Income Tax department at the time of account-opening for FPIs. However, FPIs need to provide the copy of PAN card within 60 days of account-opening or before remitting funds out of India, whichever is earlier to their intermediaries.

Central Board of Direct Taxes (CBDT) has recently introduced a facility of E-PAN (electronic PAN card) vide press release dated April 11, 2017. Accordingly it is clarified that E-PAN issued by CBDT can also be produced by FPI for KYC compliance.²⁷

1.3 *Simplification of demat account opening process*²⁸

- i. SEBI has taken a number of steps in the recent past to simplify the Account opening and KYC process in the securities markets. In continuation of the efforts in the same direction, it has now been decided in consultation with both the Depositories and Associations of stock brokers and Depository Participants to further simplify and rationalize the demat account opening process.
- ii. The existing Beneficial Owner-Depository Participant Agreements shall be replaced with a common document "Rights and Obligations of the Beneficial Owner and Depository Participant". The document annexed herewith shall be mandatory and binding on all the existing and new clients and depository participants. This will harmonize the account opening process for trading as well as demat account. This will also rationalise the number of signatures by the investor, which he is required to affix at present on a number of pages.
- iii. The Depository Participant shall provide a copy of Rights and Obligations Document to the beneficial owner and shall take an acknowledgement of

²⁷ Reference: Circular SEBI/HO/IMD/FIIC/CIR/P/2017/068 dated June 30, 2017

²⁸ Reference Circular SEBI/MIRSD/ 12/2013 dated December 04, 2013



the same. They shall ensure that any clause in any voluntary document neither dilutes the responsibility of the depository participant nor it shall be in conflict with any of the clauses in this Document, Rules, Bye-laws, Regulations, Notices, Guidelines and Circulars issued by SEBI and the Depositories from time to time. Any such clause introduced in the existing as well as new documents shall stand null and void.

- iv. In consultation with market participants, with a view to simplify the account opening kit, SEBI has decided that Depository Participant shall make available this document “Rights and Obligations of the Beneficial Owner and Depository Participant” to the clients, either in electronic or physical form, depending upon the preference of the client as part of account opening kit. In case the documents are made available in electronic form, Depository Participant shall maintain the logs of the same. It is also reiterated that Depositories/Depository participant shall continue to make the aforesaid document available on their website and keep the clients informed about the same.²⁹

ANNEXURE

Rights and Obligations of Beneficial Owner and Depository Participant as prescribed by SEBI and Depositories

General Clause

1. The Beneficial Owner and the Depository participant (DP) shall be bound by the provisions of the Depositories Act, 1996, SEBI (Depositories and Participants) Regulations, 1996, Rules and Regulations of Securities and Exchange Board of India (SEBI), Circulars/Notifications/Guidelines issued there under, Bye Laws and Business Rules/Operating Instructions issued by the Depositories and relevant notifications of Government Authorities as may be in force from time to time.

²⁹ Reference: Circular CIR/MIRSD/64/2016 dated July 12, 2016



2. The DP shall open/activate demat account of a beneficial owner in the depository system only after receipt of complete Account opening form, KYC and supporting documents as specified by SEBI from time to time.

Beneficial Owner information

3. The DP shall maintain all the details of the beneficial owner(s) as mentioned in the account opening form, supporting documents submitted by them and/or any other information pertaining to the beneficial owner confidentially and shall not disclose the same to any person except as required by any statutory, legal or regulatory authority in this regard.
4. The Beneficial Owner shall immediately notify the DP in writing, if there is any change in details provided in the account opening form as submitted to the DP at the time of opening the demat account or furnished to the DP from time to time.

Fees/Charges/Tariff

5. The Beneficial Owner shall pay such charges to the DP for the purpose of holding and transfer of securities in dematerialized form and for availing depository services as may be agreed to from time to time between the DP and the Beneficial Owner as set out in the Tariff Sheet provided by the DP. It may be informed to the Beneficial Owner that "no charges are payable for opening of demat accounts"
6. In case of Basic Services Demat Accounts, the DP shall adhere to the charge structure as laid down under the relevant SEBI and/or Depository circulars/directions/notifications issued from time to time.
7. The DP shall not increase any charges/tariff agreed upon unless it has given a notice in writing of not less than thirty days to the Beneficial Owner regarding the same.

Dematerialization



8. The Beneficial Owner shall have the right to get the securities, which have been admitted on the Depositories, dematerialized in the form and manner laid down under the Bye Laws, Business Rules and Operating Instructions of the depositories.

Separate Accounts

9. The DP shall open separate accounts in the name of each of the beneficial owners and securities of each beneficial owner shall be segregated and shall not be mixed up with the securities of other beneficial owners and/or DP's own securities held in dematerialized form.
10. The DP shall not facilitate the Beneficial Owner to create or permit any pledge and /or hypothecation or any other interest or encumbrance over all or any of such securities submitted for dematerialization and/or held in demat account except in the form and manner prescribed in the Depositories Act, 1996, SEBI (Depositories and Participants) Regulations, 1996 and Bye-Laws/Operating Instructions/Business Rules of the Depositories.

Transfer of Securities

11. The DP shall effect transfer to and from the demat accounts of the Beneficial Owner only on the basis of an order, instruction, direction or mandate duly authorized by the Beneficial Owner and the DP shall maintain the original documents and the audit trail of such authorizations.
12. The Beneficial Owner reserves the right to give standing instructions with regard to the crediting of securities in his demat account and the DP shall act according to such instructions.

Statement of account

13. The DP shall provide statements of accounts to the beneficial owner in such form and manner and at such time as agreed with the Beneficial Owner and as specified by SEBI/depository in this regard.



14. However, if there is no transaction in the demat account, or if the balance has become Nil during the year, the DP shall send one physical statement of holding annually to such BOs and shall resume sending the transaction statement as and when there is a transaction in the account.
15. The DP may provide the services of issuing the statement of demat accounts in an Electronic mode if the Beneficial Owner so desires. The DP will furnish to the Beneficial Owner the statement of demat accounts under its digital signature, as governed under the Information Technology Act, 2000. However if the DP does not have the facility of providing the statement of demat account in the electronic mode, then the Participant shall be obliged to forward the statement of demat accounts in physical form.
16. In case of Basic Services Demat Accounts, the DP shall send the transaction statements as mandated by SEBI and/or Depository from time to time.

Manner of Closure of Demat account

17. The DP shall have the right to close the demat account of the Beneficial Owner, for any reasons whatsoever, provided the DP has given a notice in writing of not less than thirty days to the Beneficial Owner as well as to the Depository. Similarly, the Beneficial Owner shall have the right to close his/her demat account held with the DP provided no charges are payable by him/her to the DP. In such an event, the Beneficial Owner shall specify whether the balances in their demat account should be transferred to another demat account of the Beneficial Owner held with another DP or to rematerialize the security balances held.
18. Based on the instructions of the Beneficial Owner, the DP shall initiate the procedure for transferring such security balances or rematerialize such security balances within a period of thirty days as per procedure specified



from time to time by the depository. Provided further, closure of demat account shall not affect the rights, liabilities and obligations of either the Beneficial Owner or the DP and shall continue to bind the parties to their satisfactory completion.

Default in payment of charges

19. In event of Beneficial Owner committing a default in the payment of any amount provided in Clause 5 & 6 within a period of thirty days from the date of demand, without prejudice to the right of the DP to close the demat account of the Beneficial Owner, the DP may charge interest at a rate as specified by the Depository from time to time for the period of such default.
20. In case the Beneficial Owner has failed to make the payment of any of the amounts as provided in Clause 5&6 specified above, the DP after giving two days notice to the Beneficial Owner shall have the right to stop processing of instructions of the Beneficial Owner till such time he makes the payment along with interest, if any.

Liability of the Depository

21. As per Section 16 of Depositories Act, 1996,
 - a. Without prejudice to the provisions of any other law for the time being in force, any loss caused to the beneficial owner due to the negligence of the depository or the participant, the depository shall indemnify such beneficial owner.
 - b. Where the loss due to the negligence of the participant under Clause (1) above, is indemnified by the depository, the depository shall have the right to recover the same from such participant.

Freezing/ Defreezing of accounts

22. The Beneficial Owner may exercise the right to freeze/defreeze his/her demat account maintained with the DP in accordance with the procedure



and subject to the restrictions laid down under the Bye Laws and Business Rules/Operating Instructions.

23. The DP or the Depository shall have the right to freeze/defreeze the accounts of the Beneficial Owners on receipt of instructions received from any regulator or court or any statutory authority.

Redressal of Investor grievance

The DP shall redress all grievances of the Beneficial Owner against the DP within a period of thirty days from the date of receipt of the complaint. **Authorized representative**

24. If the Beneficial Owner is a body corporate or a legal entity, it shall, along with the account opening form, furnish to the DP, a list of officials authorized by it, who shall represent and interact on its behalf with the Participant. Any change in such list including additions, deletions or alterations thereto shall be forthwith communicated to the Participant.

Law and Jurisdiction

25. In addition to the specific rights set out in this document, the DP and the Beneficial owner shall be entitled to exercise any other rights which the DP or the Beneficial Owner may have under the Rules, Bye Laws and Regulations of the respective Depository in which the demat account is opened and circulars/notices issued there under or Rules and Regulations of SEBI.
26. The provisions of this document shall always be subject to Government notification, any rules, regulations, guidelines and circulars/ notices issued by SEBI and Rules, Regulations and Bye-laws of the relevant Depository, where the Beneficial Owner maintains his/ her account, that may be in force from time to time.
27. The Beneficial Owner and the DP shall abide by the arbitration and conciliation procedure prescribed under the Bye-laws of the depository



and that such procedure shall be applicable to any disputes between the DP and the Beneficial Owner.

28. Words and expressions which are used in this document but which are not defined herein shall unless the context otherwise requires, have the same meanings as assigned thereto in the Rules, Bye-laws and Regulations and circulars/notices issued there under by the depository and /or SEBI.
29. Any changes in the rights and obligations which are specified by SEBI/Depositories shall also be brought to the notice of the clients at once.
30. If the rights and obligations of the parties hereto are altered by virtue of change in Rules and regulations of SEBI or Bye-laws, Rules and Regulations of the relevant Depository, where the Beneficial Owner maintains his/her account, such changes shall be deemed to have been incorporated herein in modification of the rights and obligations of the parties mentioned in this document.

1.4 Opening of demat account in case of HUF³⁰

It is noted that as per law, in case of HUF, shares can be held in the name of Existing Karta on behalf of HUF. Therefore, HUF demat accounts can be opened in the name of Existing Karta but not in the name of Deceased Karta and HUF entity.

After examined the issues regarding difference in opening of HUF demat account and procedure adopted in the event of death of Karta of HUF, it has been decided that opening of HUF demat account and procedure adopted in the event of death of Karta of HUF shall be as per the following guidelines³¹:

1.1 Opening of HUF Demat Account

³⁰ Reference: SEBI/ MRD/CDSL/ 149156 /2009 dated January 01, 2009

³¹ Reference: SEBI letter No. SEBI/HO/MRD/DP/OW/2016/25739/1 & 25740/1 dated September 14, 2016



- a) The Demat account shall be opened in the name of HUF entity as the name of entity appears on the PAN Card. The PAN details of the both the HUF entity and Karta of HUF shall be submitted to the Depository Participant (DP)

1.2 Death of Karta

- a) In the event of death of Karta of HUF, the name of the deceased Karta in the Beneficial Owner (BO) account shall be replaced by the new Karta appointed by the member of the HUF who in such a case shall be senior most member of the family, except married daughters.
- b) The new Karta shall submit the new list of members, a notarized copy of death certificate of the deceased Karta and a no objection from the surviving members of the HUF for him/her to act as Karta of the HUF.
- c) In the event of death of Karta of HUF, the existing BO account need not to be closed and the same account may continue. The death of Karta shall not mean that the securities lying in the BO account of the HUF is deemed to have divided among coparceners as if the partition has taken place.

1.3 Partition of HUF

- a) A total or partial partition shall be recognized only if a claim to that effect is made by one or more coparceners.
- b) An intimation of a total or partial partition shall be accompanied by a signed letter mentioning the names of the members and their confirmation of a partition having taken place.



- c) In case of partial partition of the HUF, if desired by one or more coparceners, the new Karta shall transfer shares to the said coparceners who seek partition and the BO account of the HUF shall continue. The account of such coparceners shall be treated as their individual accounts.
- d) In case of full partition of the HUF, the shares shall be divided amongst all the coparceners in the manner specified by the applicant subject to fulfillment of clause 1.3(b) above and the HUF account shall cease to exist.

1.5 *Operation of minor's demat account*³²

Under [The] Hindu Minority and Guardianship Act, 1956, permission of Court is required in the case of transfer by a natural guardian of immovable property of a minor. However, shares are not immovable property. Section 2(7) of Sale of Goods Act, 1930 includes shares within the definition of "goods". Neither the Indian Contract Act nor the Sale of Goods Act provide for transfer by sale or otherwise by guardian /natural guardian of goods/movable property in the name of minor to the effect that permission of court is required in the matter of such transfer. In the case of accounts of minor in banks also, the guardian is entitled to open, operate and even close the account also. The DP account can, therefore, be operated by a natural guardian without any order from the court though the same is neither expressly permitted nor prohibited.

1.6 *Facility for a Basic Services Demat Account (BSDA)*^{33,34}

³² Reference: SMDRP/NSDL/4615 /2000 dated March 13, 2000

³³ Reference Circular CIR/MRD/DP/22/2012 dated August 27, 2012 and Modified vide Circular CIR/MRD/DP/21/2014 dated July 01, 2014 and Circular CIR/MRD/DP/31/2014 dated November 12, 2014

³⁴ Modified vide Circular CIR/MRD/DP/20/2015 dated December 11, 2015



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1.6.1 All depository participants (DPs) shall make available a "Basic Services Demat Account" (BSDA) with limited services as per terms specified herein.

1.6.2 **Eligibility:** Individuals shall be eligible to opt for BSDA subject to the following conditions-

- i. All the individuals who have or propose to have only one demat account where they are the sole or first holder.
- ii. Individuals having any other demat account/s where they are not the first holder shall be eligible for BSDA in respect of the single demat account where they are sole or first holder.
- iii. The individual shall have only one BSDA in his/her name across all depositories.
- iv. Value of securities held in the demat account shall not exceed Rupees Two Lakhs at any point of time.

1.6.3 **Option to open BSDA:** The DP shall give option:

- i. To open BSDA to all eligible individuals who open a demat account after the date of applicability of this circular;
- ii. To all the existing eligible individuals to convert their demat account into BSDA on the date of the next billing cycle based on value of holding of securities in the account as on the last day of previous billing cycle.
- iii. In order to facilitate the eligible individuals to avail the benefits of BSDA, DPs are advised to convert all such eligible demat accounts into BSDA unless such Beneficial Owners (BOs) specifically opt to continue to avail the facility of a regular demat account.

1.6.4 **Charges:**

- i. The charge structure may be on a slab basis as indicated below:
 - a. No Annual Maintenance Charges (AMC) shall be levied, if the value of holding is upto Rs. 50,000.
 - b. For the value of holding from Rs 50,001 to Rs 200,000, AMC not exceeding Rs 100 may be charged.



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- ii. The value of holding shall be determined by the DPs on the basis of the daily closing price or NAV of the securities or units of mutual funds, as the case may be. Where such price is not available the last traded price may be taken into account and for unlisted securities other than units of mutual funds, face value may be taken in to account. The value of suspended securities may not be considered for the purpose of determining eligibility of demat account as BSDA.
- iii. If the value of holding in such BSDA exceeds the prescribed criteria at any date, the DPs may levy charges as applicable to regular accounts (non BSDA) from that date onwards.
- iv. The DPs shall assess the eligibility of the BOs at the end of the current billing cycle and convert eligible demat accounts into BSDA.

1.6.5 Services for Basic Services Demat Accounts:

- i. Transaction statements:
 - a. Transaction statements shall be sent to the BO at the end of each quarter. If there are no transactions in any quarter, no transaction statement may be sent for that quarter.
 - b. If there are no transactions and no security balance in an account, then no further transaction statement needs to be provided.
 - c. Transaction statement shall be required to be provided for the quarter in which the account became a zero balance account.
- ii. Holding Statement:
 - a. DP shall send atleast one annual physical statement of holding to the stated address of the BO in respect of accounts with no transaction and nil balance even after the account has remained in such state for one year. The DP shall inform the BO that the dispatch of the physical statement may be discontinued if the account continues to remain zero balance even after one year.
 - b. One annual statement of holding shall be sent in respect of remaining accounts in physical or electronic form as opted for by the BO.



- iii. Charges for statements: Electronic statements shall be provided free of cost. In case of physical statements, the DP shall provide at least two statements free of cost during the billing cycle. Additional physical statement may be charged at a fee not exceeding Rs.25/- per statement.
- iv. All BOs opting for the facility of BSDA, shall register their mobile number for availing the SMS alert facility for debit transactions.
- v. At least Two Delivery Instruction Slips (DIS) shall be issued at the time of account opening.
- vi. All other conditions as applicable to regular demat accounts, other than the ones mentioned in this circular shall continue to apply to basic services demat account.

1.6.6 Rationalisation of services with respect to regular accounts.

In partial modification of the earlier directions, the following rationalisation measures shall be available for regular demat accounts:

- i. Accounts with zero balance and nil transactions during the year: DP shall send atleast one annual physical statement of holding to the stated address of the BO in respect of accounts with no transaction and nil balance even after the account has remained in such state for one year. The DP shall inform the BO that if no Annual Maintenance Charge (AMC) is received by the DP, the dispatch of the physical statement may be discontinued for the account which continues to remain zero balance even after one year.
- ii. Accounts which become zero balance during the year: For such accounts, no transaction statement may be sent for the duration when the balance remains nil. However, an annual statement of holding shall be sent to the BO.



- iii. Accounts with credit balance: For accounts with credit balance but no transactions during the year, half yearly statement of holding for shall be sent to the BO.

1.7 Change of Name in the Beneficial Owner (BO) Account³⁵

1.7.1 In order to simplify the procedure of change of name in individual Beneficial Owner's (BO) account, it has been decided that an individual BO may be allowed to change his/ her name, subject to the submission of following documents at the time of change of name of the individual in the BO account.

- i. In case of change in name on account of marriage following documents shall be submitted:
Marriage Certificate or copy of Passport showing husband's name or publication of name change in official gazette.
- ii. In case of change in name on account of reasons other than marriage
Publication of name change in official gazette.

In case of change of name of an individual residing in the State of Karnataka and Punjab, for reasons other than marriage, the same may be allowed for the individual in the BO account subject to the submission of following documents³⁶:

- a) Request letter for change of name;
 - b) Sworn affidavit executed before the Notary Public/ Magistrate of First Class/ Executive Magistrate mentioning the reason for change of name and his complete address;
 - c) Paper publication in one local newspaper and one national newspaper; and
 - d) KYC in changed name
- iii. In case of change in father's name:
Publication of name change in official gazette.

³⁵ Reference Circular CIR/MRD/DP/27/2012 dated November 01, 2012

³⁶ Reference: Circular CIR/MRD/DP/158/2018 dated December 27, 2018



- 1.7.2** The Depository Participants (DPs) shall collect the self-attested copies of above documents and maintain the same in their records after verifying with the original document.

1.8 *Fees/Charges to be paid by BO*

1.8.1 Account opening, custody and credit of securities³⁷

With effect from February 1, 2005

- i. No investor shall pay any charge towards opening of a Beneficial Owner (BO) Account except for statutory charges as applicable;
- ii. No investor shall pay any charge for credit of securities into his/her BO account; and
- iii. No custody charge shall be levied on any investor who is opening a BO account.

1.8.2 Account Closure³⁸

No Account closure charges shall be levied on BO on the closure of any account.

1.8.3 Inter Depository Transfer³⁹

Inter-depository transfer of shares does not attract Stamp duty and it does not require compliance with section 108 of the Companies Act 1956.

1.8.4 Transfer of a BO Account⁴⁰

With effect from January 09, 2006

³⁷ Reference Circular MRD/DoP /SE/Dep/Cir-4/2005 dated January 28, 2005

³⁸ Reference Circular D&CC/FITTC/CIR - 12/2002 dated October 30, 2002

³⁹ Reference Circular SMDRP/Policy/Cir-29/99 dated August 23, 1999

⁴⁰ Reference Circular MRD/DoP/Dep/Cir-22 /05 dated November 9, 2005



No charges shall be levied by a depository on any DP and by a DP on any BO when the BO transfers all the securities lying in his account to another branch of the same DP or to another DP under the same depository or another depository, provided the BO Account(s) at transferee DP and at transferor DP are one and the same, i.e. identical in all respects. In case the BO Account at transferor DP is a joint account, the BO Account at transferee DP should also be a joint account in the same sequence of ownership.

1.8.5 Account Maintenance Charges collected upfront on annual/ half yearly basis on demat accounts⁴¹

- i. In the event of closing of the demat account or shifting of the demat account from one DP to another, the AMC collected upfront on annual/half yearly basis by the DP, shall be refunded by the DP to the BO for the balance of the quarter/s. For instance, in case annual AMC has been paid by the BO and if the BO closes/shifts his account in the first quarter, he shall be refunded the amount of the balance 3 quarters i.e. 3/4th of the AMC. Likewise, if a BO closes/shifts his account in the third quarter, he shall be refunded the amount for the balance one quarter i.e. 1/4th of the AMC.
- ii. For the purpose of the above requirement the year shall begin from the date of opening of the account in quarterly rests.
- iii. The above requirements shall be applicable to all existing and new accounts held with DPs which collect annual/half yearly upfront AMC. It is clarified that the above requirements shall not be applicable to those DPs who collect quarterly/ monthly AMC.

⁴¹ Reference Circular MRD/DP/20/2010 dated July 1, 2010



1.8.6 Dissemination of tariff/charge structure of DPs on the website of depositories ⁴²

- i. DPs shall submit to their depository the tariff/charge structure every year, latest by 30th April, and also inform the depository the changes in their tariff/charge structure as and when they are effected with a view to enabling the BOs to have a comparative analysis of the tariff/charge structure of various DPs.
- ii. For this purpose depositories shall put in place necessary systems and procedures including formats, periodicity, etc. for collection of necessary data from the DPs and dissemination of the same on their website which would enable the investors to have a comparative analysis of the tariff/charge structure of various DPs.

1.9 *Safeguards to address the concerns of the investors on transfer of securities in dematerialized mode*⁴³

Following safeguards shall be put in place to address the concerns of the investors arising out of transfer of securities from the BO Accounts:

- i. The depositories shall give more emphasis on investor education particularly with regard to careful preservation of Delivery Instruction Slip (DIS) by the BOs. The Depositories may advise the BOs not to leave “blank or signed” DIS with the Depository Participants (DPs) or any other person/entity.
- ii. The DPs shall not accept pre-signed DIS with blank columns from the BO(s).
- iii. If the DIS booklet is lost / stolen / not traceable by the BO, then the BO shall immediately intimate the DP in writing about the loss. On receipt of such intimation, the DP shall cancel the unused DIS of the said booklet.

⁴² Reference Circular MRD/Dep/Cir- 20/06 dated December 11, 2006

⁴³Reference Circular SEBI/MRD/Dep/Cir-03/2007 dated February 13, 2007 and Circular SEBI/MRD/Dep/Cir-03/2008 dated February 28, 2008



- iv. The DPs shall not issue more than 10 loose DIS to one accountholder in a financial year (April to March). The loose DIS can be issued only if the BO(s) come in person and sign the loose DIS in the presence of an authorised DP official
- v. The DP shall also ensure that a new DIS booklet is issued only on the strength of the DIS instruction request slip (contained in the previous booklet) duly complete in all respects, unless the request for fresh booklet is due to loss, etc., as referred to in clause (c) above
- vi. The DPs shall put in place appropriate checks and balances with regard to verification of signatures of the BOs while processing the DIS.
- vii. The DPs shall cross check with the BOs under exceptional circumstances before acting upon the DIS.
- viii. The DPs shall mandatorily verify with a BO before acting upon the DIS, in case of an account which remained inactive i.e., where no debit transaction had taken place for a continuous period of 6 months, whenever all the ISIN balances in that account (irrespective of the number of ISINs) are transferred at a time. However, in case of active accounts, such verification may be mandatory only if the BO account has 5 or more ISINs and all such ISIN balances are transferred at a time. The authorized official of the DP verifying such transactions with the BO, shall record the details of the process, date, time, etc., of the verification on the instruction slip under his signature.

1.10 *Delivery Instruction Slip (DIS) Issuance and Processing*⁴⁴

Standardization of DIS

- i. Depositories shall ensure that the DIS is standardized across all DPs in terms of:

⁴⁴ Circular SEBI/MRD/DOP/01/2014 dated January 07, 2014



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- a. Serial Numbering of Delivery Instruction Slips so as to enable system level checks by the depositories.
 - b. Layout and size of DIS so as to facilitate scanning and easy retrievability of records
- ii. The DIS must bear a pre-printed serial number, DP ID, and a pre-printed/pre stamped Beneficial Owner (BO) ID. The depositories shall prescribe a standard method of serial numbering and ensure that serial numbers issued by a DP are unique within the DP-ID.
- iii. DPs shall ensure that
- a. same DIS shall not be used for giving both market and off-market instructions
 - b. a single DIS shall not be used for transactions with multiple execution dates.

Monitoring of DIS

- iv. Upon issuance of DIS booklets or loose slips to BO, the DPs shall make available immediately the following details of the DIS to the depository system electronically:
- a. the DIS serial number
 - b. BO ID
 - c. date of issuance, and
 - d. any other relevant details as decided by the depository
- v. At the time of execution of DIS, DPs shall enter the serial number of DIS in the depository system for validation. The depositories shall make provisions in their systems to facilitate the same.
- vi. In respect of all the transfer instructions on a DIS, Depositories shall validate the serial number of DIS and shall ensure that no instructions accompanied by a used DIS or unissued DIS are processed.

Scanning of DIS



- vii. DPs shall scan every DIS executed during a day along with all Annexures/ Computer printouts, if any, by the end of the next working day in the manner specified by the depository.
- viii. The depositories shall ensure that their DPs have adequate infrastructure, systems and processes to implement scanning, storage and transfer of the scanned DIS in the manner specified by the depositories.
- ix. The depositories shall ensure that the systems set up by the DPs maintain proper records of all scanned DIS images including audit trails for changes made, if any and put in place adequate checks and procedures to prevent unauthorized changes to scanned DIS.
- x. Depositories shall utilize the archived scanned images for off-site inspection.
- xi. Provisions of this circular shall not be applicable for the instructions received from the clients by the DPs electronically in a manner approved by the Depository.
- xii. Once a new DIS booklet is issued to a BO as per provisions of this circular, old DIS issued to such a BO shall not be accepted by the DP. A period of one month may be given for receipt of DIS by the BOs. The DPs may accept old DIS during this transit period.⁴⁵ All DIS issued prior to this circular shall be phased out within a period of 2 years from the date of this circular. The measures listed above under the head 'Monitoring of DIS' shall be made applicable to the DIS issued as per the provisions of this circular.

1.11 Transmission of shares^{46, 47}

- 1.11.1 In cases of transmission of shares of a deceased security holder, where the shareholding in the BO account of the deceased member, as

⁴⁵ Reference: CIR/MRD/DP/22/2014 dated July 04, 2014

⁴⁶ Reference: MRD/DoP/Dep/VM/182963/2009 dated November 12, 2009

⁴⁷ Reference: CIR/MIRSD/10/2013 dated October 28, 2013



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calculated on the date of application for transmission, is within the threshold limit of Rupees Five lakh in value, the DPs shall not insist on additional documents other than any one or more of the documents mentioned below.

- i. Affidavit – to the effect of the claim of legal ownership of the shares
- ii. Deed of indemnity – indemnifying the depository and DP
- iii. NOC from other legal heir(s), wherever applicable, along with the Claim Form/TRF and copy of death certificate duly notarized/ attested by a Gazetted officer or Family Settlement Deed as an alternate to the NOC duly executed by all the legal heirs of the deceased Beneficial Owner, provided that:
 - a. The Family Settlement Deed clearly vests the securities in favour of the person seeking transmission in his/ her name.
 - b. Vesting of securities in favour of the person seeking transmission in his/ her name is not contingent upon any other onerous conditions in such Family Settlement Deed.

Note: If the division of shares as per the Family Settlement Deed is amongst more than one person, then the Family Settlement Deed can be considered as an NOC for transmission of shares to each legal heirs applying for transmission. However, if DPs still have problems in comprehending the contents of the Family Settlement Deed, they should refer the matter to Depositories for necessary advice on case-to-case basis.

- 1.11.2 DP(s) shall automatically open new account in the name of the surviving members(s), in the same order as in the original account, on an application by the surviving member(s) based on existing documents required as per the KYC norms. Submission of new account opening form shall not be insisted upon.



- 1.11.3 A uniform time frame of 7 days, after receipt of all requisite documents, shall be prescribed for processing of Transmission requests.
- 1.11.4 In case of multiple successors, NOC of non-applicants shall be recorded on the TRF of the applicant instead of insisting separate TRF from each of the successors.
- 1.11.5 Nomination facility shall be encouraged by the Depositories specifically targeting BOs who have not opted for nomination. As regards new accounts, it shall be provided for at the account opening stage itself. In case the person (both an existing and new account holder) is not interested to nominate, then such person would have to give a positive declaration to that effect.
- 1.11.6 The depositories may permit upto three nominees with respect to a demat account.⁴⁸
- 1.11.7 In case of transmission of securities held in physical mode:
- i. Where the securities are held in single name with a nominee, STAs/issuer companies shall follow the standardized documentary requirement as given in Annexure A.
 - ii. Where the securities are held in single name without a nominee, the STAs/issuer companies shall follow, in the normal course, the simplified documentation as given in Annexure A, for a threshold limit of Rs. 2,00,000 (Rupees Two lakh only) per issuer company. However, the Issuer companies, at their discretion, may enhance the value of such securities.
- 1.11.8 The timeline for processing the transmission requests for securities held in dematerialized mode and physical mode shall be 7 days and 21 days respectively, after receipt of the prescribed documents.

⁴⁸ Reference: SEBI Letter No. MRD//DP/OW/23881/2015 dated August 24, 2015 regarding multiple nominations in demat accounts



1.11.9 To improve the awareness of nomination facility, all Registrars to an Issue and Share Transfer Agents shall publicize nomination as an additional right available to investors, while sending communications to the investors.

1.11.10 In terms of Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) (Sixth Amendment) Regulations, 2018, succession certificate or probate of will or will or letter of administration or court decree, as may be applicable in terms of Indian Succession Act, 1925 has been prescribed as documentary requirement for transmission of securities held in physical mode.⁴⁹

1.11.11 With regard to transmission of securities held in dematerialized mode, the same is dealt in terms of bye laws of the Depositories. In order to harmonize the procedures for transmission of securities in dematerialized mode with that of transmission of securities in physical mode, it has been decided that transmission of securities held in dematerialized mode shall be dealt in line with Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) (Sixth Amendment) Regulations, 2018.

⁴⁹ Reference Circular SEBI/HO/MIRSD/DOP/CIR/P/2019/05 dated January 04, 2019



Annexure A

Documentary requirement for securities held in physical mode

- 1 For securities held in single name with a nominee:
 - i. Duly signed transmission request form by the nominee.
 - ii. Original or Copy of death certificate duly attested by a Notary Public or by a Gazetted Officer.
 - iii. Self attested copy of PAN card of the nominee. (*Copy of PAN card may be substituted with ID proof in case of residents of Sikkim after collecting address proof*)
- 2 For securities held in single name without a nominee, following additional documents may be sought:
 - i. Affidavit made on appropriate non judicial stamp paper – to the effect of identification and claim of legal ownership to the securities
 - ii. For value of securities upto Rs. 2,00,000 (Rupees Two lakh only) per issuer company as on date of application, one or more of the following documents:
 - a. No objection certificate [NOC] from all legal heir(s) who do not object to such transmission (or) copy of Family Settlement Deed duly notarized or attested by a Gazetted Officer and executed by all the legal heirs of the deceased holder.
 - b. Indemnity made on appropriate non judicial stamp paper – indemnifying the STA/Issuer Company.
 - iii. For value of securities more than Rs. 2,00,000 (Rupees Two lakh only) per issuer company as on date of application:
 - a. Succession certificate (or) Probate of will (or) Letter of Administration (or) Court decree.

End of Annexure A



1.12 *SMS alerts for demat accounts operated by Power of Attorney*⁵⁰

Subscription to SMS Alert facility for depository accounts operated through Power of Attorney (POA) would be mandatory except in case of accounts held by non-individuals, foreign nationals, and NRIs.

1.13 *Exemption from sending quarterly statements of transactions by depository participants (DPs) to clients in respect of demat accounts with no transactions and no security balances*⁵¹

- i. SEBI has provided exemption to Depository Participants from sending quarterly transaction statements to the clients in respect of demat accounts with no transactions and no security balances subject to the following conditions:
 - a. Client is informed in advance that it will not be receiving Transaction Statements for such accounts till there are any transactions or security holdings in the demat account.
 - b. KYC and PAN requirement in respect of all such depository accounts are complied.
 - c. No Annual Maintenance Charges are levied for such an account.
 - d. Information which is required to be disseminated by Participants by way of a note in the Transaction Statements will be required to be communicated to such Clients separately.
 - e. The Internal Auditor of the Participant shall comment in its internal audit report on compliance of the aforesaid requirements.
- ii. Further, depository may like to consider whether, DPs should send a consolidated Transaction Statements for the entire financial year in case of the BOs to whom quarterly Transaction Statements are not sent.

⁵⁰ Reference: SEBI/MRD/DEP/VM/169784 /09 dated July 15, 2009

⁵¹ Reference: MRD/CDSL/VM/155773/2009 dated February 27, 2009, MRD/DoP/NSDL/VM/168994 /2009 dated July 07, 2009 and MRD/CDSL/VM/168989 /2009 dated July 07, 2009



1.14 *Discontinuation of sending transaction statements by depository participants to clients⁵²*

SEBI allowed discontinuation of sending transaction statements by depository participants to clients subject to the following conditions:

- i. Transaction statements were returned undelivered on three consecutive occasions.
- ii. The depository participant (DP) maintains proof that the transaction statements were returned undelivered.
- iii. The transaction statements were returned undelivered for the reasons which clearly establish that the client no longer resides at the given address (i.e. party shifted, etc.) and not for other reasons (i.e. residence/office closed, address incorrect, address incomplete, etc.).
- iv. The DP informs such clients through alternative means (such as outbound call, SMS or email) that their transaction statements are returned undelivered and they need to communicate the proper (new) address.
- v. The DP ensures that on receipt of request for address modification from the client as per the stipulated procedure, the dispatch of transaction statements is immediately started. Further, the DP ensures that transaction statements that were not delivered and dispatched due to discontinuation are also dispatched immediately without any additional cost to the clients.

1.15 *Exemption to Depository Participants (DPs) from providing hard copies of transaction statements to BOs⁵³*

DPs are permitted to provide transaction statements and other documents to the BOs under Digital signature, as governed under the Information Technology Act, 2000, subject to the DP entering into a legally enforceable arrangement with the BO for the said purpose. While such practice in the aforesaid manner shall be deemed to be in compliance of the provisions of the Regulation 60 of SEBI (Depositories & Participants) Regulations, 2018;

⁵² Reference: MRD/NSDL/VM/158886 /2009 dated March 30, 2009

⁵³ Reference Circular MRD/DoP/Dep/Cir-27/2004 dated August 16, 2004



if the BO is still desirous of receiving statements in hard copy, DPs shall be duty bound to provide the same.

1.16 *Transfer of funds and securities from Clearing Member pool account to BO Account*⁵⁴

- i. Clearing members shall transfer the funds and securities from their respective pool account to the respective beneficiary account of their clients within 1 working day after the pay-out day. The securities lying in the pool account beyond the stipulated period shall attract a penalty at the rate of 6 basis point per week on the value of securities. The penalty so collected by the depositories shall be credited to a separate account with the depository and earmarked for defraying the expenses in connection with the investors' education and awareness programs conducted by the depository.
- ii. The securities lying in the pool account beyond the above period shall not be eligible either for delivery in the subsequent settlement(s) or for pledging or stock lending purpose, until the same are credited to the beneficiary accounts.
- iii. The securities lying in the Clearing member's pool account beyond the specified time period shall be identified based on the settlement number. The clearing corporation/houses of the stock exchanges shall provide the settlement-wise details of securities to the depositories and the depositories shall maintain the settlement-wise records for the purpose.
- iv. Further, stock exchanges shall execute direct delivery of securities to the investors. Clearing corporation/clearing house (CC/CH) shall ascertain from each clearing member, the beneficial account details of their respective clients due to receive pay out of securities. Based on this, the CC/CH shall send pay out instructions to the depositories so that the client receives pay out of securities directly to the extent of instructions received from the respective clearing members. To the extent of

⁵⁴Reference Circular SMDRP/Policy/Cir-05/2001 dated February 1, 2001 & Circular SEBI/MRD/Policy/AT/Cir-19/2004 dated April 21, 2004



instruction not received, the securities shall be credited to the CM pool account.

1.17 Consolidated Account Statement (CAS) for all securities assets⁵⁵

- i. Pursuant to the Interim Budget announcement in 2014 to create one record for all financial assets of every individual, it has been decided 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.
- ii. The Depositories and the Asset Management Companies (AMCs)/ MF-RTAs shall put in place systems to facilitate generation and dispatch of single Consolidated Account Statements (CAS) for investors having MF investments and holding demat accounts. AMCs/ RTAs shall share the requisite information with the Depositories on monthly basis to enable generation of CAS.
- iii. Consolidation of account statement shall be done on the basis of PAN. In case of multiple holding, it shall be PAN of the first holder and pattern of holding. Based on the PANs provided by the AMCs/MF-RTAs, the Depositories shall match their PAN database to determine the common PANs and allocate the PANs among themselves for the purpose of sending CAS. For PANs which are common between depositories and AMCs, the Depositories shall send the CAS. In other cases (i.e. PANs with no demat account and only MF units holding), the AMCs/ MF-RTAs shall continue to send the CAS to their unit holders as is being done presently in compliance with the Regulation 36(4) of the SEBI (Mutual Funds) Regulations.
- iv. In case investors have multiple accounts across the two depositories, the depository having the demat account which has been opened earlier shall be the default depository which will consolidate details across depositories and MF investments and dispatch the CAS to the investor. However, option shall be given to the demat account holder by the default depository to choose the depository through which the investor wishes to receive the CAS.

⁵⁵ Circular CIR/MRD/DP/31/2014 dated November 12, 2014



- v. The CAS shall be generated on a monthly basis. The AMCs /MF-RTAs shall provide the data with respect to the common PANs to the depositories within three days from the month end. The depositories shall then consolidate and dispatch the CAS within ten days from the month end.
- vi. Where statements are presently being dispatched by email either by the Mutual Funds or by the Depositories, CAS shall be sent through email. However, where an investor does not wish to receive CAS through email, option shall be given to the investor to receive the CAS in physical form at the address registered in the Depository system.
- vii. A proper grievance redressal mechanism shall be put in place by the depositories and the AMCs/MF-RTAs which shall also be communicated to the investors through CAS. AMCs/MF-RTAs would be accountable for the authenticity of the information provided through CAS in respect of MF investments and timely sharing of such information with Depositories. The Depositories would be responsible for the timely dispatch of CAS to the investors serviced by them and the demat account information.
- viii. The depositories and the AMCs/ MF-RTAs shall ensure data integrity and confidentiality in respect of the shared information. The depositories shall utilise the shared data only for the purpose of providing CAS and shall not share the same with their Depository Participants. Where Depositories are required to share such information with unregulated entities like third party printers, the depositories shall enter into necessary data confidentiality agreements with them.
- ix. The CAS shall be implemented from the month of March 2015 with respect to the transactions carried out during the month of February 2015.
- x. If an investor does not wish to receive CAS, an option shall be given to the investor to indicate negative consent. Depositories shall accordingly inform investors in their statements from the month of January 2015 about the facility of CAS and give them information on how to opt out of the facility if they do not wish to avail it.



- xi. Where such an option is exercised, the concerned depository shall inform the AMC/MF-RTA accordingly and the data with respect to the said investor shall not be shared by the AMC/MF-RTA with the depository.
- xii. If there is any transaction in any of the demat accounts of the investor or in any of his mutual fund folios, then CAS shall be sent to that investor on monthly basis. In case there is no transaction in any of the mutual fund folios and demat accounts then CAS with holding details shall be sent to the investor on half yearly basis. However, in case of demat accounts with nil balance and no transactions in securities and in mutual fund folios, the requirement to send physical statement shall be applicable as specified at para 1.6.5 and 1.6.6 of this chapter.
- xiii. Further, the holding statement dispatched by the DPs to their BOs with respect to the dormant demat accounts with balances shall also be dispatched half-yearly.
- xiv. The dispatch of CAS by the depositories to BOs would constitute compliance by the Depository Participants with requirement under Regulation 60 of SEBI (Depositories and Participants) Regulations, to provide statements of account to the BOs as also compliance by the MFs with the requirement under Regulation 36(4) of SEBI (Mutual Funds) Regulations.

1.18 *Procedure for filing and redressal of investor grievances using SCORES⁵⁶*

- i. Investors who wish to lodge a complaint on SCORES are requested to register themselves on www.scores.gov.in by clicking on "Register here". While filing the registration form, details like Name of the investor, PAN, Contact details, Email id, Aadhaar card number (optional), CKYC ID (optional) etc. (**Annexure A**) may be provided for effective communication and speedy redressal of the grievances. Upon successful registration, a unique user id and a password shall be communicated to the investor through an acknowledgement email / SMS.

⁵⁶ Reference Circular SEBI/HO/OIAE/IGRD/CIR/P/2018/58 dated March 28, 2018



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- ii. An investor shall use login credentials for lodging complaint on SCORES ("Login for registered user" section). Details on how to lodge a complaint on SCORES is at **Annexure B**.
- iii. The complainant may use SCORES to submit the grievance directly to companies / intermediaries and the complaint shall be forwarded to the entity for resolution. The entity is required to redress the grievance within 30 days, failing which the complaint shall be registered in SCORES
- iv. Presently, the limitation period for filing an arbitration reference with stock exchanges is three year. In line with the same and in order to enhance ease, speed & accuracy in redressal of investor grievance, the investor may lodge a complaint on SCORES within three years from the date of cause of complaint, where;

Investor has approached the listed company or registered intermediary for redressal of the complaint **and**,

The concerned listed company or registered intermediary rejected the complaint **or**,

The complainant does not receive any communication from the listed company or intermediary concerned **or**,

The complainant is not satisfied with the reply given to him or redressal action taken by the listed company or an intermediary.

Annexure A

Details to be provided while registering on SCORES with effect from August 01, 2018:

- i. Name of the complainant*
- ii. Pan Number*
- iii. Aadhaar Number (Optional)
- iv. CKYCID(Optional)
- v. DP id & Client Id
- vi. Postal address for communication*
- vii. Contact number –Mobile* : Landline



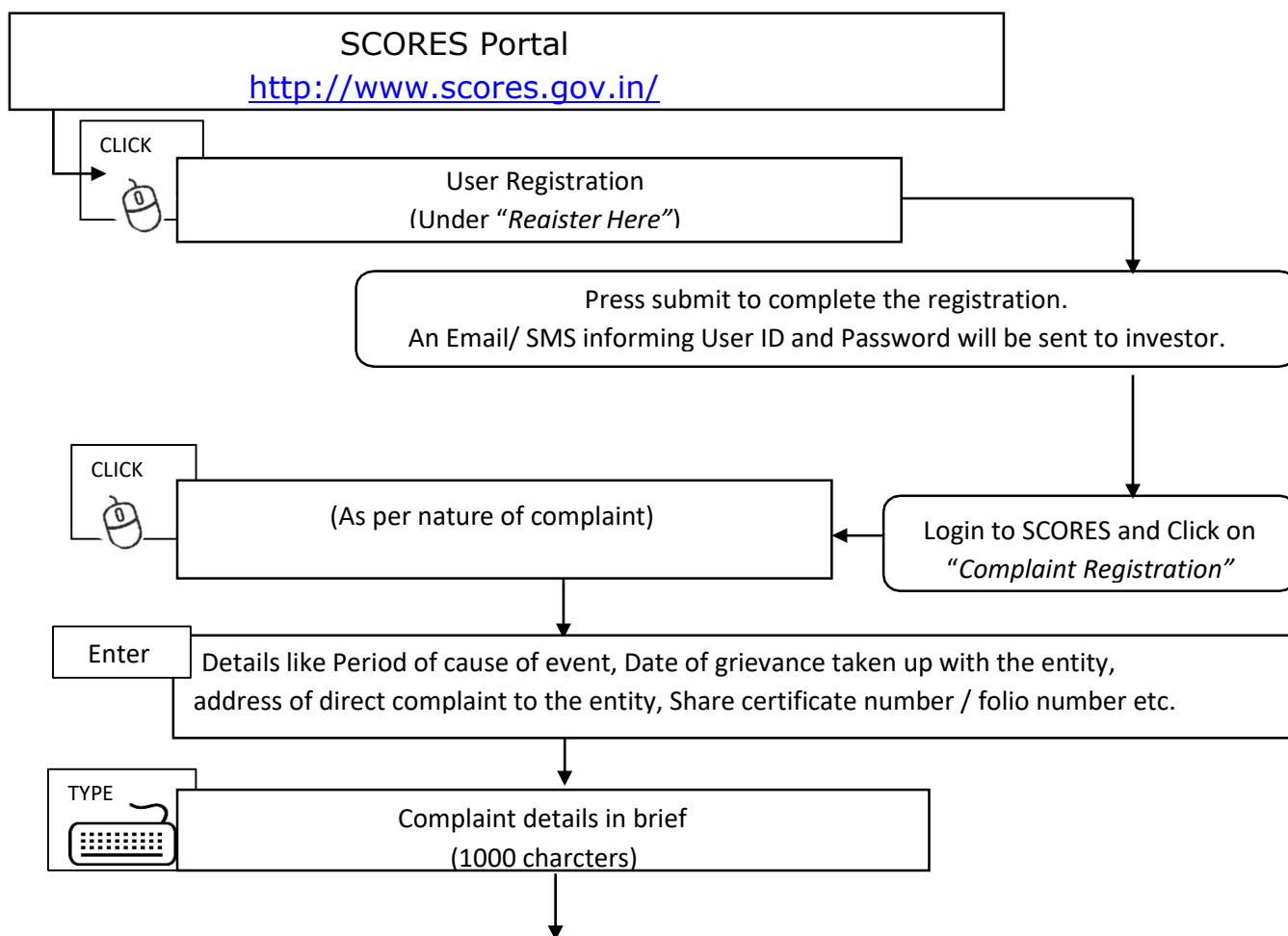
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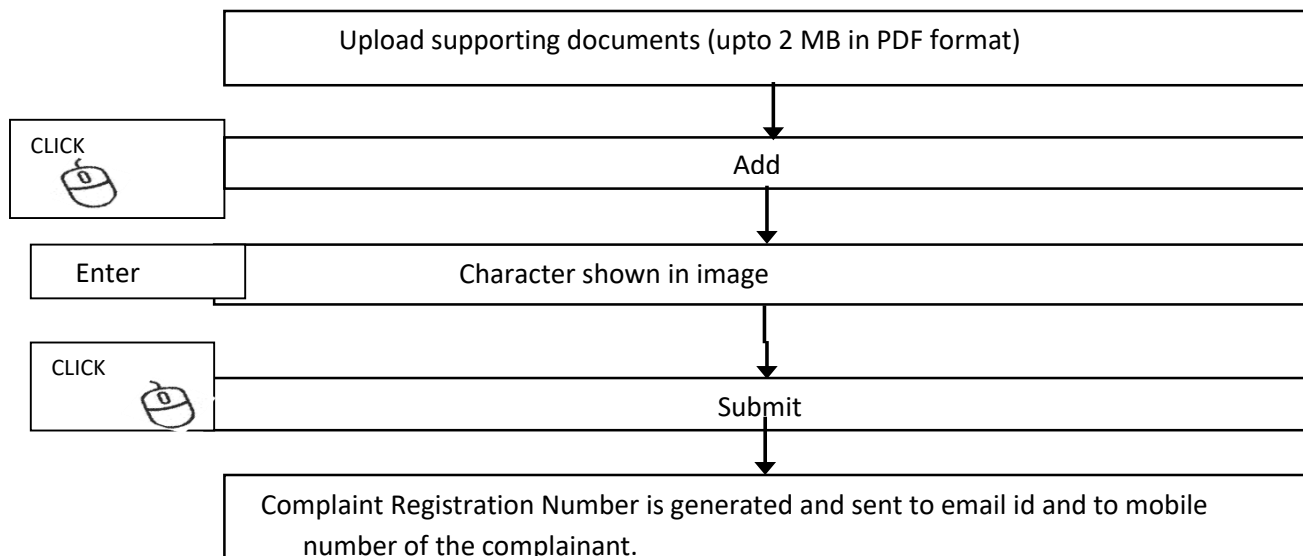
- viii. Email id* -For receipt of acknowledgement letter / updates of complaints on SCORES.
- ix. Bank account details -To facilitate direct credit of benefits to investor.
- x. Client id as given by Broker / Stock Exchange.

Note: * are mandatory fields.

Annexure B

How to lodge a complaint on SCORES with effect from August 01, 2018.





Section 2: Depository Participants Related

2.1 Online Registration Mechanism for Securities Market Intermediaries⁵⁷

- i. SEBI Intermediary Portal (<https://siportal.sebi.gov.in>) has been operationalized for the intermediaries to submit all the registration applications online. The SEBI Intermediary Portal includes online application for registration, processing of application, grant of final registration, application for surrender / cancellation, submission of periodical reports, requests for change of name / address / other details etc.
- ii. All applications for registration / surrender / other requests shall be made through SEBI Intermediary Portal only. The application in respect of stock brokers / sub-broker and depository participants

⁵⁷ Reference Circular No. SEBI/HO/MIRSD/MIRSD1/CIR/P/2017/38 dated May 02, 2017



shall continue to be made through the Stock Exchanges and Depositories respectively.

- iii. The applicants will be separately required to submit relevant documents viz. declarations / undertakings, in physical form, only for records without impacting the online processing of applications for registration.
- iv. Where applications are made through the Stock Exchanges / Depositories, the hard copy of the applications made by their members shall be preserved by them and shall be made available to SEBI, as and when called for.

2.2 Supervision of branches of DPs⁵⁸

- v. To ensure compliance with Regulation 63 of the SEBI (Depositories and Participants) Regulations, 2018, and Clause 19 of the Code of Conduct for Participants contained in the Third Schedule to the Regulations the DP shall ensure that it has satisfactory internal control procedure in place, inclusive of their branch offices. DPs are therefore required in terms of these provisions to put in place appropriate mechanisms to ensure that their branches are carrying on the operations in compliance with the applicable regulations, bye-laws, etc. DPs are also required to put in place suitable internal control systems to ensure that all branches exercise due diligence in opening accounts, complying with KYC requirements, in ensuring systems safety in complying with client instructions, manner of uploading client instructions, in verifying signatures and maintaining client records, etc. DPs shall also ensure that the branches are suitably integrated.
- vi. Depositories shall examine the adequacy of the above mechanisms during their inspections of DPs. The Depositories shall also carry out surprise inspections/ checks of the DP branches apart from the regular inspection

⁵⁸Reference Circular MIRSD/DPS-III/Cir-9/07 dated July 3, 2007



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of the DPs. Depositories shall also put in place appropriate mechanisms for monitoring opening of branches by DPs.

2.3 *Incentivisation to Depositories Participants (DPs)*⁵⁹

- i. In order to compensate the DPs towards the cost of opening and maintaining Basic Services Demat Accounts (BSDA), the depositories shall pay an incentive of Rs. 100/- for every new BSDA opened by their participants in other than the top 15 cities. The name of the top 15 cities is given in following table:

Top 15 Cities

Sr. No.	Name of the City
1.	MUMBAI
2.	DELHI
3.	AHMEDABAD
4.	BANGALORE
5.	CHENNAI
6.	PUNE
7.	KOLKATA
8.	THANE
9.	HYDERABAD
10.	SURAT
11.	JAIPUR
12.	VADODARA
13.	SECUNDARABAD
14.	RAJKOT
15.	INDORE

- ii. The incentive shall be provided at the end of the financial year only with respect to the new BSDA opened during the financial year and which displayed at least one credit in the account during the Financial Year.

⁵⁹ Reference Circular CIR/MRD/DP/18/2015 dated December 09, 2015



- iii. Further to the above, in order to incentivize the DPs to promote holdings in the BSDA, the depositories may pay an amount of Rs. 2 per folio per ISIN to the respective depository participant (DP), in respect of the ISIN positions held in Basic Service Demat Accounts (BSDA). This incentive may be provided with respect to all the BSDA in the depository system.
- iv. The reimbursement to DPs shall be made on an annual basis at the end of the financial year. The depositories shall set aside 20% of the incremental revenue received from the Issuers to manage the aforementioned incentive schemes. Any surplus after reimbursement of DPs may be utilized by the depositories to incentivize the DPs for promoting financial inclusion, encouraging investors to hold Mutual Fund Units in demat account and familiarizing the investors on the OFS mechanism, etc.
- v. The incentive scheme may be reviewed after a period of two years.

2.4 *Implementation of the Multilateral Competent Authority Agreement and Foreign Account Tax Compliance Act⁶⁰*

- i. It is brought to the attention of all the intermediaries that India has joined the multilateral competent Authority Agreement (MCAA) on Automatic Exchange of Financial Account Information on June 3, 2015. In terms of the MCAA, all countries which are a signatory to the MCAA, are obliged to exchange a wide range of financial information after collecting the same from financial institutions in their country/jurisdiction.
- ii. Further, on July 9, 2015 the Governments of India and United States Of America (USA) have signed an agreement to improve International tax compliance and to implement the Foreign Account Tax Compliance Act (FATCA) in India. The USA has enacted FATCA in 2010 to obtain information on accounts held by U.S taxpayers in other countries. As per the aforesaid agreement, foreign financial institutions (FFIs) in India will be required to report tax information about U.S account

⁶⁰ Circular No. CIR/MIRSD/2/2015 dated August 26, 2015



holders/taxpayers directly to the Indian Government which will, in turn, relay that information to the U.S Internal Revenue Services (IRS).

- iii. For implementation of the MCAA and agreement with USA, the Government of India has made necessary legislative changes to section 285BA of the Income-tax Act, 1961. Further the Government of India has notified Rules 114F to 114H (herein after referred as “the Rules”) under the Income Tax Rules, 1962 and form No. 61B for furnishing of statement of reportable account as specified in the Rules. The Rule is available at <http://www.incometaxindia.gov.in/communications/notification/notification%20no.%2062%20dated%2007-08-2015.pdf>
- iv. All registered intermediaries are advised to take necessary steps to ensure compliance with the requirements specified in the aforesaid Rules after carrying out necessary due diligence.

2.5 *Printing of Grievances Redressal Mechanism on Delivery Instruction Form Book* ⁶¹

To promote investor awareness regarding mechanism for redressing investor grievances, the information placed below shall be printed on the inside back cover of the Delivery Instruction Form (DIF) Book issued by all Depository Participants.

In case you have grievances against a listed company or intermediary registered with SEBI, you should first approach the concerned company or intermediary against whom you have grievance. If you are not satisfied with their response, you may approach SEBI or other regulatory bodies. You can approach SEBI for following type of grievances.

Listed Companies

- Refund / Allotment/ Bonus/ Dividend/

Brokers and stock exchanges

- Stock Brokers

⁶¹ Circular No. SEBI/MRD/DP/25/2012 dated September 21, 2012



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<div>Rights/ Redemption/ Interest</div> <ul style="list-style-type: none">• Prelisting offer documents (shares)• Prelisting offer documents (debentures and bonds)• Delisting of Securities• Buyback of Securities• Takeover and Restructuring• Corporate Governance and Listing conditions	<ul style="list-style-type: none">• Sub brokers• Portfolio managers• Stock exchanges
Registrar and Transfer Agents	Other entities Collective Investment Schemes Debenture Trustees Merchant Bankers Bankers to Issue Credit Rating Agencies Custodian of Securities Foreign Institutional Investors Underwriters Venture Capital Funds KYC Registration Agency(KRA) Alternative Investment Fund
Mutual Funds	
Depository and Depository Participants	
Information to SEBI: <ul style="list-style-type: none">• Price Manipulation• Insider trading	
<p>You can file your complaints online at <u>http://scores.gov.in</u> or alternately send your complaints to Office of Investor Assistance and Education of SEBI at Mumbai or Regional Offices at the following addresses:</p>	
Address of SEBI Offices	
<ul style="list-style-type: none">• <u>Office of Investor Assistance and Education</u>, SEBI Bhavan, Plot No.C4-A, 'G' Block, Bandra Kurla Complex, Bandra (E), Mumbai 400 051 Tel: 022-26449188 / 26449199 (http://scores.gov.in)• SEBI, Northern Regional Office, 5th Floor, Bank of Baroda Building, 16, Sansad Marg, New Delhi -110001 Tel: 011-23724001-05 (sebinro@sebi.gov.in)	



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- SEBI, Eastern Regional Office, L&T Chambers, 3rd Floor, 16, Camac Street, Kolkata - 700 016 Tel: 033-23023000. (sebiero@sebi.gov.in)
- SEBI, Southern Regional Office, 7th Floor, Overseas Towers, 756-L, Anna Salai Chennai 600 0102 □ Tel: 044-24674000/ 24674150 (sebisro@sebi.gov.in)
- SEBI, Ahmedabad Regional Office, Unit No: 002, Ground Floor, SAKAR I, Near Gandhigram Railway Station, Opp. Nehru Bridge Ashram Road, Ahmedabad - 380 009 Tel : 079-26583633-35 (sebiaro@sebi.gov.in)

For more information visit our website - <http://scores.gov.in>

2.6 *Operationlisation of Central KYC Records Registry (CKYCR)*⁶²

1. Government of India has authorized the central Registry of Securitization and Asset Reconstruction and Security interest of India (CERSAI), set up under sub-section (1) of Section 20 of Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002, to act as, and to perform the functions of, the Central KYC Records Registry under the PML Rules 2005, including receiving, storing, safeguarding and retrieving the KYC records in digital form of a client.
2. As per the 2015 amendment to PML (Maintenance of Records) Rules, 2005 (the rules), every reporting entity shall capture the KYC information for sharing with the Central KYC Records Registry in the manner mentioned in the Rules, as per the KYC template for „individuals“ finalised by CERSAI.
3. Accordingly, the KYC template finalised by CERSAI shall be used by the registered intermediaries as Part I of AOF for individuals. The KYC template for “individuals” and the “Central KYC Registry Operating Guidelines 2016” for uploading KYC records on CKYCR finalised by CERSAI. In this regard, it is clarified that the requirement for Permanent Account Number (PAN) would continue to be mandatory

⁶² Reference Circular CIR/MIRSD/ 66 /2016 dated July 21, 2016



for completing the KYC process.

2.7 *Recording of Non Disposal Undertaking (NDU) in the Depository System*⁶³

SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011, requires promoters of a company to disclose details of their encumbered shares including NDUs by promoters which are covered under the scope of disclosures of 'Encumbrances'. It has been observed that some shareholders, primarily promoters, enter into non-disposal agreements/ non-disposal undertaking (NDU) for borrowing funds from various lenders. NDUs are typically undertakings given by a shareholder not to transfer or otherwise alienate the securities and are in the nature of negative lien given in favour of another party, usually a lender.

- i. Depositories shall develop a separate module/ transaction type in their system for recording NDUs.
- ii. Both parties to the NDU shall have a demat account with the same depository and be KYC compliant.
- iii. Pursuant to entering the NDU, the Beneficial Owner (BO) along with the other party shall make an application through the participant (where the BO holds his securities) to the depository, for the purpose of recording the NDU transaction.
- iv. The application shall necessarily include details of BO ID, PAN, email-id, signature(s), name of the entity in whose favor such NDU is entered and the quantity of securities. Such entity in whose favor NDU is entered shall also authorize the participant of the BO holding the shares, to access the signatures as recorded in that entity's demat account.
- v. The participant after being satisfied that the securities are available for NDU shall record the NDU and freeze for debit the requisite quantity of securities under NDU in the depository system.
- vi. The depositories shall make suitable provisions for capturing the details of BO ID and PAN of the entity in whose favor such NDU is entered by the participant. The depositories shall also make available to the said

⁶³ Reference circular number CIR/MRD/DP/56/2017 dated June 14, 2017



- participant, the details of authorized signatories as recorded in the demat account of the entity in whose favor such NDU is entered.
- vii. On creation of freeze in the depository system, the depository/ participant of the BO holding shares, shall inform both parties of the NDU regarding creation of freeze under NDU.
 - viii. The depositories shall make suitable provisions for capturing the details of company/ promoters if they are part of the NDU.
 - ix. In case if the participant does not create the NDU, it shall intimate the same to the parties of the NDU along with the reasons thereof.
 - x. Once the freeze for debits is created under the NDU for a particular quantity of shares, the depository shall not facilitate or effect any transfer, pledge, hypothecation, lending, rematerialisation or in any manner alienate or otherwise allow dealing in the shares held under NDU till receipt of instructions from both parties for the cancellation of NDU.
 - xi. The entry of NDU made as per para 4.34 (v) above may be cancelled by the depository/participant of the BO through unfreeze of specified quantity if parties to the NDU jointly make such application to the depository through the participant of the BO.
 - xii. On unfreeze of shares upon termination/ cancellation of NDU, the depository shall inform both parties of the NDU in the form and manner agreed upon at the time of creating the freeze. The unfreeze shall be effected in the depository system after a cooling period of 2 clear business days but no later than 4 clear business days.
 - xiii. The freeze and unfreeze instructions executed by the Participant for recording NDUs will be subject to 100% concurrent audit.
 - xiv. The DPs shall not facilitate or be a party to any NDU outside the depository system as outlined herein.

2.8 *Cyber Security & Cyber Resilience framework for Depository Participant*⁶⁴

- i. Rapid technological developments in securities market have highlighted the need for maintaining robust cyber security and cyber resilience framework to protect the integrity of data and guard against breaches of privacy.

⁶⁴ Reference circular SEBI/HO/MIRSD/CIR/PB/2018/147 dated December 03, 2018



- ii. Since depository participants perform significant functions in providing services to holders of securities, it is desirable that these entities have robust cyber security and cyber resilience framework in order to provide essential facilities and perform systemically critical functions relating to securities market.
- iii. Accordingly, after discussions with Exchanges, Depositories and Stock Brokers' and Depository Participants' associations, a framework on cyber security and cyber resilience has been designed, which is placed at Annexure 1. The framework would be required to be complied by all Depository Participants registered with SEBI.

Annexure -1

1. Cyber-attacks and threats attempt to compromise the Confidentiality, Integrity and Availability (CIA) of the computer systems, networks and databases (Confidentiality refers to limiting access of systems and information to authorized users, Integrity is the assurance that the information is reliable and accurate, and Availability refers to guarantee of reliable access to the systems and information by authorized users). Cyber security framework includes measures, tools and processes that are intended to prevent cyber-attacks and improve cyber resilience. Cyber Resilience is an organization's ability to prepare and respond to a cyber-attack and to continue operation during, and recover from, a cyber-attack.

Governance

2. As part of the operational risk management framework to manage risk to systems, networks and databases from cyber-attacks and threats, Depository Participants should formulate a comprehensive Cyber Security and Cyber Resilience policy document encompassing the framework mentioned hereunder. In case of deviations from the suggested framework, reasons for such deviations, technical or otherwise, should be provided in the policy document.
The policy document should be approved by the Board / Partners / Proprietor of the Stock Broker / Depository Participants. The policy document should be reviewed by the aforementioned group at least



- annually with the view to strengthen and improve its Cyber Security and Cyber Resilience framework.
3. The Cyber Security Policy should include the following process to identify, assess, and manage Cyber Security risk associated with processes, information, networks and systems:
 - a. 'Identify' critical IT assets and risks associated with such assets.
 - b. 'Protect' assets by deploying suitable controls, tools and measures.
 - c. 'Detect' incidents, anomalies and attacks through appropriate monitoring tools/processes.
 - d. 'Respond' by taking immediate steps after identification of the incident, anomaly or attack.
 - e. 'Recover' from incident through incident management and other appropriate recovery mechanisms.
 4. The Cyber Security Policy of Stock Brokers trading through APIs based terminal / Depository Participants should consider the principles prescribed by National Critical Information Infrastructure Protection Centre (NCIIPC) of National Technical Research Organization (NTRO), Government of India (titled 'Guidelines for Protection of National Critical Information Infrastructure') and subsequent revisions, if any, from time to time.
 5. Stock Brokers trading through APIs based terminal / Depository Participants may refer to best practices from international standards like ISO 27001, COBIT 5, etc., or their subsequent revisions, if any, from time to time.
 6. Depository Participants should designate a senior official or management personnel (henceforth, referred to as the "Designated Officer") whose function would be to assess, identify, and reduce security and Cyber Security risks, respond to incidents, establish appropriate standards and controls, and direct the establishment and implementation of processes and procedures as per the Cyber Security Policy.
 7. The Board / Partners / Proprietor of the Depository Participants shall constitute an Technology Committee⁶⁵ comprising experts. This Technology Committee should on a half yearly basis review the

⁶⁵ Reference Circular CIR/HO/MIRSD/DOS2/CIR/PB/2019/038 dated March 15, 2019 - in Para 7, the words "Internal Technology Committee" stands replaced as "Technology Committee".



implementation of the Cyber Security and Cyber Resilience policy approved by their Board / Partners / Proprietor, and such review should include review of their current IT and Cyber Security and Cyber Resilience capabilities, set goals for a target level of Cyber Resilience, and establish plans to improve and strengthen Cyber Security and Cyber Resilience. The review shall be placed before the Board / Partners / Proprietor of the Stock Brokers / Depository Participants for appropriate action.

8. Depository Participants should establish a reporting procedure to facilitate communication of unusual activities and events to the Designated Officer in a timely manner.
9. The Designated officer and the technology committee of the Depository Participants should periodically review instances of cyber-attacks, if any, domestically and globally, and take steps to strengthen Cyber Security and cyber resilience framework.
10. Depository Participants should define responsibilities of its employees, outsourced staff, and employees of vendors, members or participants and other entities, who may have privileged access or use systems / networks of Depository Participants towards ensuring the goal of Cyber Security.

Identification

11. Depository Participants should identify critical assets based on their sensitivity and criticality for business operations, services and data management. To this end, Depository Participants should maintain up-to-date inventory of its hardware and systems and the personnel to whom these have been issued, software and information assets (internal and external), details of its network resources, connections to its network and data flows.
12. Depository Participants should accordingly identify cyber risks (threats and vulnerabilities) that it may face, along with the likelihood of such threats and impact on the business and thereby, deploy controls commensurate to the criticality.

Protection



Access controls

13. No person by virtue of rank or position should have any intrinsic right to access confidential data, applications, system resources or facilities.
14. Any access to Depository Participants systems, applications, networks, databases, etc., should be for a defined purpose and for a defined period. Depository Participants should grant access to IT systems, applications, databases and networks on a need-to-use basis and based on the principle of least privilege. Such access should be for the period when the access is required and should be authorized using strong authentication mechanisms.
15. Depository Participants should implement an access policy which addresses strong password controls for users' access to systems, applications, networks and databases. Illustrative examples for this are given in Annexure C.
16. All critical systems of the Depository Participant accessible over the internet should have two-factor security (such as VPNs, Firewall controls etc.)
17. Depository Participants should ensure that records of user access to critical systems, wherever possible, are uniquely identified and logged for audit and review purposes. Such logs should be maintained and stored in a secure location for a time period not less than two (2) years.
18. Depository Participants should deploy controls and security measures to supervise staff with elevated system access entitlements (such as admin or privileged users) to Stock Broker/ Depository Participant's critical systems. Such controls and measures should inter-alia include restricting the number of privileged users, periodic review of privileged users' activities, disallow privileged users from accessing systems logs in which their activities are being captured, strong controls over remote access by privileged users, etc.
19. Employees and outsourced staff such as employees of vendors or service providers, who may be given authorized access to the Depository Participants critical systems, networks and other computer



resources, should be subject to stringent supervision, monitoring and access restrictions.

20. Depository Participants should formulate an Internet access policy to monitor and regulate the use of internet and internet based services such as social media sites, cloud-based internet storage sites, etc. within the Depository Participant's critical IT infrastructure.
21. User Management must address deactivation of access of privileges of users who are leaving the organization or whose access privileges have been withdrawn.

Physical Security

22. Physical access to the critical systems should be restricted to minimum and only to authorized officials. Physical access of outsourced staff/visitors should be properly supervised by ensuring at the minimum that outsourced staff/visitors are accompanied at all times by authorized employees.
23. Physical access to the critical systems should be revoked immediately if the same is no longer required.
24. Depository Participants should ensure that the perimeter of the critical equipments room, if any, are physically secured and monitored by employing physical, human and procedural controls such as the use of security guards, CCTVs, card access systems, mantraps, bollards, etc. where appropriate.

Network Security Management

25. Depository Participants should establish baseline standards to facilitate consistent application of security configurations to operating systems, databases, network devices and enterprise mobile devices within their IT environment. The LAN and wireless networks should be secured within the Depository Participants' premises with proper access controls.
26. For algorithmic trading facilities, adequate measures should be taken to isolate and secure the perimeter and connectivity to the servers running algorithmic trading applications.



27. Depository Participants should install network security devices, such as firewalls, proxy servers, intrusion detection and prevention systems (IDS) to protect their IT infrastructure which is exposed to the internet, from security exposures originating from internal and external sources.
28. Adequate controls must be deployed to address virus / malware / ransomware attacks. These controls may include host / network / application based IDS systems, customized kernels for Linux, anti-virus and anti-malware software etc.

Data security

29. Critical data must be identified and encrypted in motion and at rest by using strong encryption methods. Illustrative measures in this regard are given in Annexure A and B.
30. Depository Participants should implement measures to prevent unauthorized access or copying or transmission of data / information held in contractual or fiduciary capacity. It should be ensured that confidentiality of information is not compromised during the process of exchanging and transferring information with external parties. Illustrative measures to ensure security during transportation of data over the internet are given in Annexure B.
31. The information security policy should also cover use of devices such as mobile phones, faxes, photocopiers, scanners, etc., within their critical IT infrastructure, that can be used for capturing and transmission of sensitive data. For instance, defining access policies for personnel, and network connectivity for such devices etc.
32. Depository Participants should allow only authorized data storage devices within their IT infrastructure through appropriate validation processes.

Hardening of Hardware and Software

33. Depository Participants should only deploy hardened hardware / software, including replacing default passwords with strong passwords and disabling or removing services identified as unnecessary for the functioning of the system.



34. Open ports on networks and systems which are not in use or that can be potentially used for exploitation of data should be blocked and measures taken to secure them.

Application Security in Customer Facing Applications

35. Application security for Customer facing applications offered over the Internet such as IBTs (Internet Based Trading applications), portals containing sensitive or private information and Back office applications (repository of financial and personal information offered by Brokers to Customers) are paramount as they carry significant attack surfaces by virtue of being available publicly over the Internet for mass use. An illustrative list of measures for ensuring security in such applications is provided in Annexure C.

Certification of off-the-shelf products

36. Depository Participants should ensure that off the shelf products being used for core business functionality (such as Back office applications) should bear Indian Common criteria certification of Evaluation Assurance Level 4. The Common criteria certification in India is being provided by (STQC) Standardisation Testing and Quality Certification (Ministry of Electronics and Information Technology). Custom developed / in-house software and components need not obtain the certification, but have to undergo intensive regression testing, configuration testing etc. The scope of tests should include business logic and security controls.

Patch management

37. Depository Participants should establish and ensure that the patch management procedures include the identification, categorization and prioritization of patches and updates. An implementation timeframe for each category of patches should be established to apply them in a timely manner.



38. Depository Participants should perform rigorous testing of security patches and updates, where possible, before deployment into the production environment so as to ensure that the application of patches do not impact other systems.

Disposal of data, systems and storage devices

39. Depository Participants should frame suitable policy for disposal of storage media and systems. The critical data / Information on such devices and systems should be removed by using methods such as crypto shredding / degauss / Physical destruction as applicable.
40. Depository Participants should formulate a data-disposal and data-retention policy to identify the value and lifetime of various parcels of data.

Vulnerability Assessment and Penetration Testing (VAPT)

41. Depository Participants should regularly conduct vulnerability assessment to detect security vulnerabilities in their IT environments exposed to the internet.
42. Depository Participants with systems publicly available over the internet should also carry out penetration tests, at-least once a year, in order to conduct an in-depth evaluation of the security posture of the system through simulations of actual attacks on its systems and networks that are exposed to the internet.
- In addition, Depository Participants should perform vulnerability scanning and conduct penetration testing prior to the commissioning of a new system that is accessible over the internet.
43. In case of vulnerabilities discovered in off-the-shelf products (used for core business) or applications provided by exchange empanelled vendors, Depository Participants should report them to the vendors and the exchanges in a timely manner.
44. Remedial actions should be immediately taken to address gaps that are identified during vulnerability assessment and penetration testing.

Monitoring and Detection



45. Depository Participants should establish appropriate security monitoring systems and processes to facilitate continuous monitoring of security events / alerts and timely detection of unauthorised or malicious activities, unauthorised changes, unauthorised access and unauthorised copying or transmission of data / information held in contractual or fiduciary capacity, by internal and external parties. The security logs of systems, applications and network devices exposed to the internet should also be monitored for anomalies.
46. Further, to ensure high resilience, high availability and timely detection of attacks on systems and networks exposed to the internet, Stock Brokers / Depository Participants should implement suitable mechanisms to monitor capacity utilization of its critical systems and networks that are exposed to the internet, for example, controls such as firewalls to monitor bandwidth usage.

Response and Recovery

47. Alerts generated from monitoring and detection systems should be suitably investigated in order to determine activities that are to be performed to prevent expansion of such incident of cyber-attack or breach, mitigate its effect and eradicate the incident.
48. The response and recovery plan of the Depository Participants should have plans for the timely restoration of systems affected by incidents of cyber-attacks or breaches, for instance, offering alternate services or systems to Customers. Stock Brokers / Depository Participants should have the same Recovery Time Objective (RTO) and Recovery Point Objective (RPO) as specified by SEBI for Market Infrastructure Institutions vide SEBI circular CIR/MRD/DMS/17/20 dated June 22, 2012 as amended from time to time
49. The response plan should define responsibilities and actions to be performed by its employees and support / outsourced staff in the event of cyber-attacks or breach of Cyber Security mechanism.
50. Any incident of loss or destruction of data or systems should be thoroughly analyzed and lessons learned from such incidents should be



incorporated to strengthen the security mechanism and improve recovery planning and processes.

51. Depository Participants should also conduct suitable periodic drills to test the adequacy and effectiveness of the aforementioned response and recovery plan.

Sharing of Information

52. Quarterly reports containing information on cyber-attacks and threats experienced by Depository Participants and measures taken to mitigate vulnerabilities, threats and attacks including information on bugs / vulnerabilities / threats that may be useful for other Depository Participants should be submitted to Depositories.

Training and Education

53. Depository Participants should work on building Cyber Security and basic system hygiene awareness of staff (with a focus on staff from non-technical disciplines).
54. Depository Participants should conduct periodic training programs to enhance knowledge of IT / Cyber Security Policy and standards among the employees incorporating up-to-date Cyber Security threat alerts. Where possible, this should be extended to outsourced staff, vendors etc.
55. The training programs should be reviewed and updated to ensure that the contents of the program remain current and relevant.

Systems managed by vendors

56. Where the systems (IBT, Back office and other Customer facing applications, IT infrastructure, etc.) of a Stock Brokers / Depository Participants are managed by vendors and the Stock Brokers / Depository Participants may not be able to implement some of the aforementioned guidelines directly, the Depository Participants should instruct the vendors to adhere to the applicable guidelines in the Cyber Security and Cyber Resilience policy and obtain the necessary self-certifications from them to ensure compliance with the policy guidelines.



Systems managed by MIIs

57. Where applications are offered to customers over the internet by MIIs (Market Infrastructure Institutions), for eg.: NSE's NOW, BSE's BEST etc., the responsibility of ensuring Cyber Resilience on those applications reside with the MIIs and not with the Depository Participant. The Depository Participant is exempted from applying the aforementioned guidelines to such systems offered by MIIs such as NOW, BEST, etc.

Periodic Audit

58. The Terms of Reference for the System Audit of Stock Brokers specified vide circular no. CIR/MRD/DMS/34/2013 dated November 06, 2013, shall accordingly stand modified to include audit of implementation of the aforementioned areas.
59. The Depository Participants and Type I Stock Brokers (as defined in CIR/MRD/DMS/34/2013 dated November 06, 2013) shall arrange to have their systems audited on an annual basis by a CERT-IN empanelled auditor or an independent CISA/CISM qualified auditor to check compliance with the above areas and shall submit the report to Stock Exchanges / Depositories along with the comments of the Board / Partners / Proprietor of Stock Broker/ Depository Participant within three months of the end of the financial year.

Annexure A

Illustrative Measures for Data Security on Customer Facing Applications

1. Analyse the different kinds of sensitive data shown to the Customer on the frontend application to ensure that only what is deemed absolutely necessary is transmitted and displayed.
2. Wherever possible, mask portions of sensitive data. For instance, rather than displaying the full phone number or a bank account number, display only a portion of it, enough for the Customer to identify, but useless to an unscrupulous party who may obtain covertly obtain it from the Customer's screen. For instance, if a bank account number is "123 456 789", consider displaying something akin to "XXX XXX 789" instead of the



whole number. This also has the added benefit of not having to transmit the full piece of data over various networks.

3. Analyse data and databases holistically and draw out meaningful and “silos” (physical or virtual) into which different kinds of data can be isolated and cordoned off. For instance, a database with personal financial information need not be a part of the system or network that houses the public facing websites of the Stock Broker. They should ideally be in discrete silos or DMZs.
4. Implement strict data access controls amongst personnel, irrespective of their responsibilities, technical or otherwise. It is infeasible for certain personnel such as System Administrators and developers to not have privileged access to databases. For such cases, take strict measures to limit the number of personnel with direct access, and monitor, log, and audit their activities. Take measures to ensure that the confidentiality of data is not compromised under any of these scenarios.
5. Use industry standard, strong encryption algorithms (eg: RSA, AES etc.) wherever encryption is implemented. It is important to identify data that warrants encryption as encrypting all data is infeasible and may open up additional attack vectors. In addition, it is critical to identify the right personnel to be in charge of, and the right methodologies for storing the encryption keys, as any compromise to either will render the encryption useless.
6. Ensure that all critical and sensitive data is adequately backed up, and that the backup locations are adequately secured. For instance, on servers on isolated networks that have no public access endpoints, or on-premise servers or disk drives that are off-limits to unauthorized personnel. Without up-to-date backups, a meaningful recovery from a disaster or cyber-attack scenario becomes increasingly difficult.



Annexure B

Illustrative Measures for Data Transport Security

1. When an Application transmitting sensitive data communicates over the Internet with the Stock Brokers' systems, it should be over a secure, encrypted channel to prevent Man- In-The-Middle (MITM) attacks, for instance, an IBT or a Back office communicating from a Customer's web browser or Desktop with the Stock Brokers' systems over the internet, or intra or inter organizational communications. Strong transport encryption mechanisms such as TLS (Transport Layer Security, also referred to as SSL) should be used.
2. For Applications carrying sensitive data that are served as web pages over the internet, a valid, properly configured TLS (SSL) certificate on the web server is mandatory, making the transport channel HTTP(S).
3. Avoid the use of insecure protocols such as FTP (File Transfer Protocol) that can be easily compromised with MITM attacks. Instead, adopt secure protocols such as FTP(S), SSH and VPN tunnels, RDP (with TLS) etc.

Annexure C

Illustrative Measures for Application Authentication Security

1. Any Application offered by Stock Brokers to Customers containing sensitive, private, or critical data such as IBTs, SWSTs, Back office etc. referred to as "Application" hereafter) over the Internet should be password protected. A reasonable minimum length (and no arbitrary maximum length cap or character class requirements) should be enforced. While it is difficult to quantify password "complexity", longer passphrases have more entropy and offer better security in general. Stock Brokers should attempt to educate Customers of these best practices.
2. Passwords, security PINs etc. should never be stored in plain text and should be one-way hashed using strong cryptographic hash functions (e.g.: bcrypt, PBKDF2) before being committed to storage. It is important to use one-way cryptographic hashes to ensure that stored password hashes are never transformed into the original plaintext values under any circumstances.



3. For added security, a multi-factor (e.g.: two-factor) authentication scheme may be used (hardware or software cryptographic tokens, VPNs, biometric devices, PKI etc.).
In case of IBTs and SWSTs, a minimum of two-factors in the authentication flow are mandatory.
4. In case of Applications installed on mobile devices (such as smartphones and tablets), a cryptographically secure biometric two-factor authentication mechanism may be used.
5. After a reasonable number of failed login attempts into Applications, the Customer's account can be set to a "locked" state where further logins are not possible until a password and authentication reset is performed via an out-of-band channel validation, for instance, a cryptographically secure unique link that is sent to the Customer's registered e-mail, a random OTP (One Time Password) that is sent as an SMS to the Customer's registered mobile number, or manually by the Broker after verification of the Customer's identity etc.
6. Avoid forcing Customers to change passwords at frequent intervals which may result in successive, similar, and enumerated passwords. Instead, focus on strong multi-factor authentication for security and educate Customers to choose strong passphrases. Customers may be reminded within reasonable intervals to update their password and multi-factor credentials, and to ensure that their out-of-band authentication reset information (such as e-mail and phone number) are up-to-date.
7. Both successful and failed login attempts against a Customer's account may be logged for a reasonable period of time. After successive login failures, it is recommended that measures such as CAPTCHAs or rate-limiting be used in Applications to thwart manual and automated brute force and enumeration attacks against logins.



2.9 *Reporting for Artificial Intelligence (AI) and Machine Learning (ML) applications and systems offered and used by market intermediaries⁶⁶*

Background

1. There is increasing usage of AI (Artificial Intelligence) and ML (Machine Learning) as product offerings by market intermediaries and participants (eg: “robo advisors”) in investor and consumer facing products. SEBI is conducting a survey and creating an inventory of the AI / ML landscape in the Indian financial markets to gain an in-depth understanding of the adoption of such technologies in the markets and to ensure preparedness for any AI / ML policies that may arise in the future.
2. As most AI / ML systems are black boxes and their behavior cannot be easily quantified, it is imperative to ensure that any advertised financial benefit owing to these technologies in investor facing financial products offered by intermediaries should not constitute to misrepresentation

Scope definition

3. Any set of applications / software / programs / executable / systems (computer systems) –cumulatively called application and systems,
 1. that are offered to investors (individuals and institutions) by market intermediaries to facilitate investing and trading,
OR
 2. to disseminate investments strategies and advice,
OR
 3. to carry out compliance operations / activities,
where AI / ML is portrayed as a part of the public product offering or under usage for compliance or management purposes, is included in the scope of this circular. Here, “AI” / “ML” refers to the terms “Artificial Intelligence” and “Machine Learning” used as a part of the product offerings. In order to make the scope of this circular inclusive of various AI and ML technologies in use, the scope also

⁶⁶ Reference Circular SEBI/HO/MIRSD/DOS2/CIR/P/2019/10 dated Jan 04, 2019



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covers Fin-Tech and Reg-Tech initiatives undertaken by market participants that involves AI and ML

- Technologies that are considered to be categorized as AI and ML technologies in the scope of this circular, are explained in Annexure B.

Regulatory requirements

- All registered Stock Brokers / Depository Participant offering or using applications or systems as defined in Annexure B, should participate in the reporting process by completing the AI / ML reporting form (see Annexure A).
- With effect from quarter ending March 2019, registered Stock Brokers / Depository Participant using AI / ML based application or system as defined in Annexure B, are required to fill in the form(Annexure A) and make submissions on quarterly basis within 15 calendar days of the expiry of the quarter.
- Stock Exchanges and Depositories have to consolidate and compile a report, on AI / ML applications and systems reported by registered Stock Brokers/ Depository Participants in the reporting format (Annexure C) on quarterly basis. The said report (Annexure C) shall be submitted in soft copy only at AI_SE@sebi.gov.in (for Stock Exchange) / AI_DEP@sebi.gov.in (for Depositories) to SEBI within 30 calendar days of the expiry of the quarter, starting from quarter ending March 2019.

Annexure A - Form to report on AI and ML technologies - To be submitted quarterly

Intimation to Stock Exchange / Depository for the use of the AI and ML application and systems

SNo.	Head	Value
1	Entity SEBI registration number	
2	Registered entity category	
3	Entity name	
4	Entity PAN no.	



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5	Application / System name	
6	Date from when the Application / System was used	
7	Type of area where AI or ML is used	<order execution / Advisory services / KYC / AML / Surveillance / compliance/others (please specify in 256 characters)>
7.a	Does the system involve order initiation, routing and execution?	<Yes / NO>
7.b	Does the system fall under discretionary investment or Portfolio management activities?	<Yes / NO>
7.c	Does the system disseminate investment or trading advice or strategies?	<Yes / NO>
7.d	Is the application/system used in area of Cyber Security to detect attacks	<Yes / NO>
7.e	What claims have been made regarding AI and ML Application / System – if any?	<free text field>
8	What is the name of the Tool / Technology that is categorized as AI and ML system / Application and submissions are declared vide this response	<free text field>
9	How was the AI or ML project implemented	<Internally / through solution provider / Jointly with a solution provider or third party>
10	Are the key controls and control points in your AI or ML application or systems in accordance to circular of SEBI that mandate cyber security control requirements	<free text field>
11	Is the AI / ML system included in the system audit, if applicable?	<Yes / NO / NA>
12	Describe the application / system and how it uses AI / ML as portrayed in the product offering	<free text field>



13	What safeguards are in place to prevent abnormal behavior of the AI or ML application / System	<free text field>
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Annexure B-Systems deemed to be based on AI and ML technology

Applications and Systems belonging but not limited to following categories or a combination of these:

1. Natural Language Processing (NLP), sentiment analysis or text mining systems that gather intelligence from unstructured data -In this case, Voice to text, text to intelligence systems in any natural language will be considered in scope. Eg: robo chat bots, big data intelligence gathering systems.
2. Neural Networks or a modified form of it -In this case, any systems that uses a number of nodes (physical or software simulated nodes) mimicking natural neural networks of any scale, so as to carry out learning from previous firing of the nodes will be considered in scope. Eg: Recurrent Neural networks and Deep learning Neural Networks
3. Machine learning through supervised, unsupervised learning or a combination of both. -In this case, any application or systems that carry out knowledge representation to form a knowledge base of domain, by learning and creating its outputs with real world input data and deciding future outputs based upon the knowledge base. Eg: System based on Decision tree, random forest, K mean, Markov decision process, Gradient boosting Algorithms.
4. A system that uses statistical heuristics method instead of procedural algorithms or the system / application applies clustering or categorization algorithms to categorize data without a predefined set of categories
5. A system that uses a feedback mechanism to improve its parameters and bases it subsequent execution steps on these parameters.
6. A system that does knowledge representation and maintains a knowledge base



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Annexure C –Consolidated Quarterly Reporting Form

Consolidated Quarterly report to SEBI of all registered intermediaries with Stock Exchange/ Depositories using AI and ML application and systems for the Quarter Ended DD/MM/YYYY

Entity registration number	Entity name	Entity PAN no.	Application / System name	Date used from	Type of area where AI or ML is used	To be filled if System Audit is applicable			
						If system audit report is submitted by entity later than “date used from”	If system audit report is submitted with adverse remarks and Stock Exchange/Depositories is entitled to inspect the entity		
							Does system audit report comply to circular no SEBI/HO/MIRS	Is there any adverse comment in the System audit report	If inspected in past 1 year
							D/DOS2/CIR /P /2019/10 dated January 4, 2019 of SEBI		
					<order execution / Advisory services / KYC / AML / Surveillance compliance/others (please	<Yes / NO/>	<Yes / NO/>	<Yes / NO>	<Yes / NO>



					specify in 256 characters)>				

Add separate rows for each system or application.

2.10 Flashing a link to SCOREs on the dashboard of Demat Accounts⁶⁷

1. A study was conducted under aegis of Quality Council of India (QCI) to understand some of the root causes of grievances / complaints on securities market related issues lodged on Centralised Public Grievance Redressal and Monitoring System (CPGRAMS) portal and the measures suggested to address the issues included providing a link to SCORES portal within Demat/Trading Account Dashboard of the Clients/ investors to make it easier to lodge grievances.
2. The suggestion has been examined and it has been decided to implement the same. Accordingly, stock exchanges and depositories are advised to issue necessary directions to stock brokers/depository participants to ensure that the Demat / Trading Account Dashboard of clients / investors provides a link to SCORES portal.

⁶⁷ Reference: SEBI letter MIRSD2/DB/AEA/OW/2018/7292 dated March 07, 2018



SECTION 3: Issuer Related

3.1 Charges paid by Issuers ^{68,69}

- i. With effect from April 27, 2011 depositories may levy and collect the charges towards custody from the issuers, on the basis of average no. of folios (ISIN position) during the previous financial year, as per the details given below:
- ii. Issuers to pay @ Rs.11.00 (*) per folio (ISIN position) in the respective depositories, subject to a minimum as mentioned below:

<i>Nominal value of admitted securities (Rs.)</i>	<i>Annual Custodial Fee payable by a Issuer to each Depository (Rs.) (*)</i>
Upto 5 crore	9,000
Above 5 crore and upto 10 crore	22,500
Above 10 crore and upto 20 crore	45,000
Above 20 crore	75,000

** Plus service tax as applicable*

- iii. The average no. of folios (ISIN positions) for an Issuer may be arrived at by dividing the total number of folios for the entire financial year by the total number of working days in the said financial year.
- iv. Temporary ISIN shall not be considered for the purpose of computing the annual issuer charges.
- v. If the issuer fails to make the payment, Depositories may charge penal interest subject to a maximum of 12% per annum.

⁶⁸ Reference Circular MRD/DoP/SE/Dep/Cir-2/2009 dated February 10, 2009 and Circular SEBI/MRD/SE/DEP/Cir-4/2005 dated January 28, 2005

⁶⁹ Reference Circular CIR/MRD/ DP/05/2011 dated April 27, 2011 and Circular CIR/MRD/DP/18/2015 dated December 09,2015



3.2 *Activation of ISIN in case of IPO and additional issue of shares/ securities*

Depositories shall activate the ISINs only on the date of commencement of trading on the stock exchanges in case of IPOs for both the equity and debt securities.⁷⁰

- i. Further, in order to curtail the transfer of additional issue of shares/ securities including by way of further public offerings, rights issue, preferential allotment, bonus issue etc of the listed company, prior to receipt of final listing / trading approval, the depositories shall devise a mechanism so that such new securities created shall be frozen till the time final listing/ trading permission is granted by the exchange.⁷¹
- ii. In order to achieve the above, the Depositories are advised to allot such additional shares/securities under a new temporary ISIN which shall be kept frozen. Upon receipt of the final listing/ trading permission from the exchange for such additional shares/ securities, the shares/securities credited in the new temporary ISIN shall be debited and the same would get credited in the preexisting ISIN for the said security. Thereafter, the additional securities shall be available for trading.
- iii. The stock exchanges are advised to provide the details to the depositories whenever final listing / trading permission is given to securities. Further, in case of issuance of equity shares by a company, listed on multiple stock exchanges, the concerned stock exchanges shall synchronize their effective dates of listing / trading approvals and intimate the same to depositories in advance.³⁴

⁷⁰ Reference Circular SEBI/MRD/DEP/Cir-2/06 dated January 19, 2006 and Circular CIR/MRD/DP/ 21 /2012 dated August 02, 2012

⁷¹ Reference Circular CIR/MRD/DP/24/2012 dated September 11, 2012



3.3 Registrar and Share Transfer Agent

3.3.1 Appointment of a single agency for share registry work⁷²

All work related to share registry pertaining in terms of both physical and electronic shares shall be maintained at a single point i.e. either in-house by the company or by a SEBI registered Registrar and Transfer Agent.

3.3.2 Inter-Depository transfers⁷³

In case of inter-Depository transfers of securities, the Registrars shall communicate the confirmation of such transfers within two hours, failing which such transfers shall be deemed to have been confirmed. The Registrars shall not reject inter-Depository transfers except where

- i. A Depository does not have adequate balance of securities in its account or
- ii. there is mismatch of transfer requests from the Depositories.

3.3.3 Common Registrars and Share Transfer agents⁷⁴

Every company shall appoint the same Registrars and Share Transfer agents for both the depositories.

3.3.4 Dematerialisation requests⁷⁵

- i. Registrars and Share Transfer agents shall accept partial dematerialisation requests and will not reject or return the entire dematerialization request where only a part of the request had to be rejected. In cases where a DP has already sent information about dematerialisation electronically to a Registrar but physical shares have not yet been delivered, the Registrar shall accept the demat request and

⁷² Reference Circular D&CC/FITTC/Cir-15/2002 dated December 27, 2002

⁷³ Reference Circular no. SMDRP/Policy/Cir-28/99 dated August 23, 1999

⁷⁴ Reference Circular SMDRP/Policy/Cir-28/99 dated August 23, 1999

⁷⁵ Reference: D&CC/ 1099 / 2002 dated November 01, 2002



carry out dematerialization on an indemnity given by the DP and proof of dispatch of document given by DP.

- ii. It is clarified that the above provision shall be applicable to all the securities like scrips, bonds, debentures, debenture stock or other marketable securities eligible to be held in dematerialised form in a depository as defined in Regulation 42 of the SEBI (Depository and Participants) Regulations, 2018.

3.4 *Mandatory admission of debt instruments on both the Depositories*⁷⁶

Debt instruments shall necessarily be admitted on both the Depositories.

3.5 *Specifications related to International Securities Identification Number (ISINs) for debt securities issued under the SEBI (Issue and Listing of Debt Securities) Regulations, 2008*⁷⁷

3.5.1 International Securities Identification Number (ISINs):

3.5.1.1 A maximum number of 17 International Securities Identification Numbers (ISINs) maturing in any financial year shall be allowed. Additionally 12 ISINs shall also be available for the issuance of the capital gains tax debt securities by the authorized issuers under section 54EC of the Income Tax Act 1961 on private placement basis.

3.5.1.2 Out of 17 ISINs maturing in a financial year, the bifurcation of ISINs shall be as under:

- i. A maximum of 12 ISINs maturing per financial year shall be allowed only for plain vanilla debt securities. Further, within these 12 ISINs, the issuer can issue both secured and unsecured debt securities
- ii. A maximum of 5 ISINs (i.e. for structured debt securities such as debt securities with call and/or put option, etc.) maturing per financial year shall be allowed only for

⁷⁶Reference Circular D&CC/FITTC/Cir-13/2002 dated November 1, 2002 and Circular MRD/DoP/SE/Dep/Cir-36/04 dated October 27, 2004

⁷⁷ Reference Circular CIR/IMD/DF-1/67/2017 dated June 30, 2017



structured products/market linked debt securities issued under the SEBI circular Cir/IMD/DF/17/2011 dated September 28, 2011, relating to issue and listing of structured/market linked debt securities.

3.5.1.3 An issuer issuing only structured/market linked debt securities, may utilise the entire bucket of 12 ISINs in a financial year only for structured/market linked debt securities. However, in such a scenario, the additional 5 ISINs as mentioned in paragraph 3.5.1.2ii above shall not be available to an issuer for utilization, either for structured debt securities or for plain vanilla debt securities.

3.5.1.4 In case of structured /market linked debt securities which have embedded options viz. call and/or put option, the maturity of ISINs shall be reckoned on basis of original maturity date of debt securities.

For e.g. if a structured debt securities having maturity of 5 years , which is callable after 3 years and thereafter every year until its redemption, then the debt securities shall be grouped in the bucket of 5 years maturity period which is its original maturity period even though it may be callable after a period of 3 years.

3.5.1.5 The provisions of this circular shall be applicable for debt securities issued in the financial year (FY) 2017-18 i.e. after the date of this circular and shall not be applicable to the ISINs maturing in respect of the debt securities issued prior to the FY 2017-18. However, post FY 2017-18, whatever issuances are made by the issuer, the issues shall be grouped and consolidated under the ISIN maturing in the same FY.

3.5.2 Exemptions from applicability of ISINs:

The following classes of debt securities issued for raising regulatory capital are exempted from the applicability of provisions of this circular:

3.5.2.1 Tier II bonds issued by Housing Finance Companies (HFCs), the maturity period of which is not less than five years issued as per “Master Circular-The Housing Finance Companies (NHB) Directions, 2010” dated July 01, 2016;



- 3.5.2.2 Tier II bonds issued by the standalone Primary dealers, with minimum maturity of five years issued as per “Standalone primary Dealers (Reserve Bank) Directions, 2016” dated August 25, 2016;
- 3.5.2.3 Subordinated debt issued by insurance companies, which is either perpetual or the maturity period of which is not less than ten years for life, general and reinsurance companies and seven years for health insurance companies issued as per the “IRDAI (Other forms of Capital) Regulations, 2015” dated November 13, 2015;
- 3.5.2.4 Additional Tier 1 bonds, which are perpetual, issued by banks under Basel III norms and Tier II bonds, having minimum maturity period of five years, issued by banks under the Basel III norms as per the “Master Circular-Basel III Capital Regulations” dated July 01, 2015.
- 3.5.2.5 Bonds issued by banks to raise resources for lending to long term infrastructure sub-sectors and affordable housing, which have a minimum maturity of seven years issued as per RBI circular dated July 15, 2014 on “Issue of Long Term bonds by banks-Financing of infrastructure and affordable housing”.
- 3.5.2.6 Perpetual debt instrument issued by Systemically Important Non-Deposit taking Non-Banking Financial Companies issued as per RBI circular dated October 29, 2008 on “Enhancement of NBFCs’ capital raising option for capital adequacy purposes”;
- 3.5.2.7 Tier II bonds issued by Non-Systemically Important Non-Deposit taking Non-Banking Financial Company issued as per RBI “Master Direction-Non-Banking Financial Company-Non-Systemically important Non-deposit taking Company (Reserve Bank) Directions, 2016” dated September 01, 2016.

3.5.3 Mechanism for honouring debt obligations arising out of capping of ISINs :

- 3.5.5.1 An issuer may honour its debt obligations/liabilities, arising out of such ISIN restriction, in the manner as deemed feasible to them i.e. the issuer can make staggered repayments or bullet maturity re-payments or in any other manner deemed so.



3.5.5.2 An issuer may offer different type of payment options to different category of investors subject to such disclosures being made in the information memorandum in order to manage their asset liability mismatch.

For e.g. an insurance company may be offered staggered redemption, however mutual fund may be offered bullet payment.

3.5.5.3 Also, in case of any modification in terms or structure of the issue viz. change in terms of payment, change in interest pay-out frequency etc. the issuer may make such modification by following procedure as has been laid out in Regulation 59 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

3.5.5.4 Record Date: There may be cases where multiple record dates would arise on account of staggered payment or other cases viz. frequency of payment etc. In such a case, when announcing multiple record dates, the issuer has to disclose clearly to the stock exchanges the basis of payment to the investors viz. pro-rata, first cum basis etc.

3.5.4 Time limit for carrying out necessary changes to the Articles of Association (AOA)/charter/constitution of the issuer:

In order to comply with the provisions of clause (a) of Regulation 20A of the SEBI (ILDS) regulations, the issuer shall have a time period of six months from the date of this circular to make an enabling provision in its Articles of Association to carry out consolidation and re-issuance of debt securities.

3.5.5 Reporting and Monitoring:

3.5.5.1 Issuers:

- i. All the issuers who have made private placement of debt securities under the SEBI (Issue and Listing of Debt Securities) Regulations, 2008, shall within fifteen working days of issue of this circular submit a statement containing data in the format as prescribed below:



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Name of the issuer	ISIN number	Issuance date	Maturity date	Coupon rate	Payment frequency	Embedded option if any	Amount issued	Amount outstanding

- ii. Also, an issuer shall within fifteen working days from the end of every half year, submit a statement, to the recognized stock exchange, where its debt securities are listed, as well as to the depository containing data in the format as prescribed above.
- iii. In case there is any modification in terms or structure of the issue viz. change in terms of payment, change in interest pay-out frequency etc.as specified in paragraph 3.5.5.3 above, the issuer shall, forthwith, inform the same to the depository.
- iv. An issuer shall within thirty working days from end of six months from the date of this circular submit a confirmation certificate to Stock Exchanges with respect to compliance with para 3.5.4 above.

3.5.5.2 Depositories:

- i. Upon receipt of the report as specified in paragraph 3.5.5.1ii and 3.5.5.1iii above, the depository shall upload the same on the centralized database for corporate bonds/debentures as per SEBI circular CIR/IMD/DF/17/2013 dated October 22, 2013 as well as the Integrated trade Repository for corporate bonds.
- ii. The RSE shall within five working days of the expiry of the period as specified in paragraph 3.5.5.1ii above, send the reports received by it to the depositories for the purposes of their reconciliation.
- iii. The depositories shall thereafter within five working days of receipt of reports from the recognised stock exchanges, send a status report to the latter regarding utilization of ISINs by the issuers.



Based on the queries and representations received from time to time, certain clarifications are issued:⁷⁸

- i. It is clarified that structured products/market linked debt securities as mentioned in paragraph 3.5.1.2ii of the master circular refer to the structured products/market linked debentures as per the SEBI circular Cir/IMD/DF/17/2011 dated September 28, 2011.
- ii. With respect to paragraph 3.5.1.3 of the master circular, it is clarified that in case of debt securities, where call and/or put option is exercised, the issuer, if so desires, may issue additional debt securities for the balance period viz. remaining period of maturity of earlier debt securities. For example, if an issuer has issued debt securities in the month of August 2017 having maturity period of three years and callable after one year, then in such a scenario if the call option is exercised in the month of August 2018, then for the balance two years period viz (September 2018-August 2020) the issuer may issue additional debt securities maturing in August 2020, under the same ISIN.
Provided that the aforesaid additional issue shall be subject to the condition that the aggregate count of outstanding ISINs maturing in the financial year in which the original issue of debt securities (bearing call and/or put option) is due for expiring, shall not exceed the prescribed limit of ISINs.
- iii. With respect to paragraph 3.5.1.5 of the master circular, it is clarified that for all the debt securities issued in the financial year (FY) 2017-18 on or after July 01, 2017, all the ISINs corresponding to these issues, maturing in any financial year, shall adhere to the limit of 12/5 ISINs.
- iv. Additionally, it may be noted that in case of conversion of partly paid debt securities to fully paid debt securities, such conversion shall not be counted as an additional ISIN under paragraph 3.5.1.2 of the master circular.

⁷⁸ Reference circular CIR/DDHS/P/59/2018 dated March 28, 2018



- v. With respect to Paragraph 3.5.2 of the master circular, it is clarified that the exemption as granted under paragraph 3.5.2.5 of the master circular shall also be available to All India Term Lending and Refinancing Institutions (AITLRI) as notified by RBI and Infrastructure Debt Funds registered as Non-Banking Finance Companies subject to them issuing debt securities with minimum five years maturity.
- vi. All the exemption from the applicability of ISIN circular, as have been outlined in paragraph 3.5.2 of the master circular and paragraph v above shall be available only till June 30, 2020 and shall not continue beyond that period. Thus, no exemption from the applicability of ISIN circular shall be available to any issuer for debt securities issued on or after July 01, 2020.
It is further clarified that for the class of entities, mentioned in paragraph 3.5.2 of the master circular and paragraph v above, for whom exemption is available, the said exemption shall be applicable only from paragraph 3.5.1 and 3.5.3 of the master circular.
- vii. With respect to paragraph 3.5.3 of the master circular, it is clarified that the issuer shall, while making an issue of debt securities, disclose upfront in the Information Memorandum/Disclosure Document that further issuances may be made under the same ISIN. However, if such a disclosure is not made by the issuer then compliance shall have to be made with regulation 59 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.
- viii. With respect to paragraph 3.5.5.1ii of the master circular, it is clarified that the statement to be submitted to the stock exchanges shall be submitted half yearly on the basis of the financial year i.e. latest by April 15 and October 15 of each financial year.



3.6 American Depositary Receipts (ADRs) / Global Depositary Receipts (GDRs)

3.6.1 Delivery of underlying shares of GDRs/ADRs in dematerialised form⁷⁹

Underlying shares of GDRs/ADRs shall be compulsorily delivered in dematerialised form. Pursuant to RBI directions in this regard, a non-resident holder of ADRs/GDRs issued by a company registered in India, on surrender of such ADRs/GDRs, can acquire the underlying shares when such shares are released by the Indian Custodian of the ADR/GDR issue. Further, the company whose shares are so released, or a Depository shall enter in the register or books, wherein such securities are registered or inscribed, an address outside India of the non-resident holder of shares.

3.6.2 Tracking of underlying shares of GDRs/ADRs⁸⁰

To ensure easy tracking of the underlying shares released on conversion of the “depositories receipts” all such shares shall be credited to a separate Depository Receipts (DRs) account of the respective investor. In this regard, Depositories shall ensure that the following information is provided to the domestic custodian holding the underlying shares on a regular basis:

- i. Total number of shares at the beginning of the month
- ii. Number of shares transferred into the account (credited) during the month
- iii. Number of shares transferred out of the account (debited) during the month.
- iv. Balance at the end of the month.

This service can be availed of only by foreign investors other than the OCBs.

⁷⁹ Reference Circular SMDRP/Policy/Cir-9/99 dated May 6, 1999

⁸⁰Reference Circular D&CC/FITTC/Cir-09/2002 dated July 4, 2002 and Circular D&CC/FITTC/Cir-10/2002 dated September 25, 2002



3.7 *Electronic Clearing System (ECS) facility*

3.7.1 Use of ECS for refund in public/ rights issues.⁸¹

For locations where facility of refund through ECS is available details of applicants shall be taken directly from the database of the depositories in respect of issues made completely in dematerialised form. Accordingly, DPs shall maintain and update on real time basis the MICR (Magnetic Ink Character Recognition) code of Bank branch of BOs and other bank details of the applicants in the database of depositories. This is to ensure that the refunds through ECS are made in a smooth manner and that there are no failed/wrong credits.

3.7.2 Updation of bank accounts details, MICR code and IFSC of bank branches by Depository Participants (DPs)⁸²

- i. It has been informed by RBI that they have been receiving complaints from managers to the issues that the funds routed through the electronic mode are getting returned by destination banks because of incorrect or old account numbers provided by beneficiary account holders.
- ii. RBI has stated that Investors will have to ensure through their DPs that bank account particulars are updated in master record periodically, to ensure that their refunds, dividend payments etc. reach the correct account, without loss of time. RBI has also suggested incorporation of Indian Financial System Code (IFSC) of customer's bank branches apart from 9 digit MICR code; since IFSC of bank's branches is used for remittance through National Electronic Funds Transfer (NEFT).
- iii. It is advised that necessary action be taken in this matter to ensure that correct account particulars of investors are available in the database of depositories.

⁸¹Reference Circular SEBI/MRD/DEP/Cir-3/06 dated February 21, 2006 and circular SEBI/CFD/DIL/DIP/29/2008/01/02 dated February 1, 2008

⁸² Reference: MRD/DEP/PP/123624 /2008 dated April 23, 2008



3.8 *Withdrawal by issuers from the depository*⁸³

- i. As regards voluntary withdrawal by issuers from the depository, it is informed that listed companies may not be allowed to withdraw from the depository system unless they delist their securities from the stock exchanges.
- ii. As regards companies under liquidation are concerned, it is informed that deactivation of the ISIN may be only done in cases where companies have been liquidated. In other cases where companies are being liquidated, deactivation of ISIN resulting in total freezing may not be desirable as it will disallow investors to hold shares in dematerialized form

3.9 *Further issue of shares under Section 86 of Companies Act and Companies (Issue of Share capital with Differential Voting Rights) Rules, 2001*⁸⁴

In all cases of shares issued by companies under Section 86(a) (ii) of Companies Act and Companies (Issue of Share Capital with Differential Voting Rights) Rules, 2001, separate ISIN may be allotted to differentiate such shares from ordinary shares.

⁸³ Reference: MRD/DoP/NSDL/VM/ 162378 /2009 dated May 06, 2009

⁸⁴ Reference: MRD/DoP/MC/141442 /2008 dated October 17, 2008



SECTION - 4: Depositories Related

4.1 *Online Registration Mechanism and Filing system for Depositories*⁸⁵

- i. In order to ease the process of application for recognition / renewal, reporting and other filings in terms of Securities and Exchange Board of India (Depositories and Participants) Regulations, 1996 and other circulars issued from time to time, SEBI has introduced a digital platform for online filings related to Depositories.
- ii. All applicants desirous of seeking registration as a Depository in terms of Regulation 3 of the Securities and Exchange Board of India (Depositories and Participants) Regulations, 1996, shall now submit their applications online, through SEBI Intermediary Portal at <https://siportal.sebi.gov.in>.
- iii. The applicants would be required to upload scanned copy of relevant documents such as any declaration or undertaking or notarised copy of documents as may be prescribed in Securities and Exchange Board of India (Depositories and Participants) Regulations 1996, and keep hard copy of the same to be furnished to SEBI whenever required.
- iv. Further, all other filings including Annual Financial Statements and Returns, Monthly Development Report, Rules, Bye-laws, etc., shall also be submitted online.
- v. The aforesaid online registration and filing system for Depositories is operational. Recognised Depositories are advised to note the same for immediate compliance.
- vi. Link for SEBI Intermediary Portal is also available on SEBI website -www.sebi.gov.in. In case of any queries and clarifications, users may refer to the manual provided in the portal or contact the SEBI Portal helpline on 022-26449364 or may write at portalhelp@sebi.gov.in.

4.2 *Activity schedule for depositories for T+2 rolling Settlement*⁸⁶

- i. The activity schedule for T+2 Rolling Settlement is as under:

⁸⁵ Reference Circular SEBI/HO/MRD/DSA/CIR/P/2018/1 dated January 29, 2018

⁸⁶Reference Circular DCC/FITTC/Cir-19/2003 dated March 4, 2003 and Circular MRD/DoP/SE/Dep/Cir-18/2005 dated September 2, 2005



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Sr. No.	Day	Time	Description of activity
1	T		Trade Day
2	T+1	By 1.00 pm	Completion of custodial confirmation of trades to CC/CH. (There is no separate extended time limit for late confirmations).
		By 2.30 pm	Completion of process and download obligation files to brokers/ custodians by the CC/CH.
3	T+2	By 11.00 am	Pay-in of securities and funds.
		By 1.30 pm	Pay-out of securities and funds.

- ii. All Depositories shall adhere to the aforementioned activity schedule to implement T+2 rolling settlement. DPs shall adhere to the designated activities within the prescribed time limits as under:
- DPs shall accept instructions for pay-in of securities from clients in the physical form atleast upto 4 p.m. and in electronic form atleast upto 6 p.m. on T+1.
 - DPs shall complete execution of pay-in instructions latest by 10:30 a. m. on T+2.
 - Depositories shall download the processed pay-in files to the Exchange / Clearing House / Clearing Corporation latest by 11:00 a.m. on T+2.
 - Pay-out of securities by the Exchange / Clearing House / Clearing Corporation to the Depositories shall be executed by 1:30 p.m. on T+2.
 - Pay-out of securities shall be completed by the Depositories by 2:00 p.m. on T+2.
- iii. All instructions received by the DPs shall have an execution date, which may be either a current date or a future date. Instructions shall be valid till the pay-in deadline or till 'end of day' (EOD) of the execution date, whichever is earlier. DPs shall ensure that the validity period of instructions is brought to the notice of the client while accepting the instructions. In case the client account does not have sufficient balance before pay-in deadline or till EOD, such instructions shall fail.



4.3 *Settlement of transactions in case of holidays⁸⁷*

Due to lack of uniformity of holidays and force majeure conditions which necessitate sudden closure of one or more Stock Exchanges and banks in a particular state, result in situations where multiple settlements have to be completed by the Stock Exchanges on the working day immediately following the day(s) of the closure of the banks. Accordingly the Stock Exchanges/Depositories are advised to follow the guidelines and adhere to the time line.

- i. The Stock Exchanges shall clear and settle the trades on a sequential basis i.e., the pay-in and the pay-out of the first settlement shall be completed before the commencement of the pay-in and pay-out of the subsequent settlement/s.
- ii. The cash/securities pay out from the first settlement shall be made available to the member for meeting his pay-in obligations for the subsequent settlement/s.
- iii. Further, in-order to meet his pay-in obligations for the subsequent settlement, the member may need to move securities from one depository to another. The Depositories shall, therefore, facilitate the inter-depository transfers within one hour and before pay-in for the subsequent settlement begins.
- iv. The Stock Exchanges/Depositories shall follow a strict time schedule to ensure that the settlements are completed on the same day.
- v. The Clearing Corporation/Clearing House of the Stock Exchanges shall execute Auto DO facility for all the settlements together, so as to make the funds and the securities available with the member on the same day for all the settlements, thereby enabling the availability of the funds/securities at the client level by the end of the same day.

4.4 *Deadline time for accepting non pay-in related instructions⁸⁸*

⁸⁷ Reference Circular SEBI/MRD/Policy/AT/Cir- 19/2004 dated April 21, 2004

⁸⁸ Reference: MRD/VSS/ARR/ 12255/2004 dated June 10, 2004



- i. The depositories are advised that any overrun of the time specified for 'spot delivery contract' in the SCRA would result in the contract becoming illegal under section 16 of the SCRA (unless it is put through the stock exchange). The DP-BO agreement cannot add anything to or subtract anything from this position. However, it should be the responsibility of the DP to ensure that the client's contract is not rendered illegal on account of delayed execution of the delivery instruction.
- ii. Keeping the hardships to change all the existing DP-BO agreements to enforce the above into consideration, it is advised that suitable bye laws can be made under section 26(2)(e) and (d) of Depositories Act, 1996 for imposing such obligation on the DPs. Therefore, it is advised to amend/insert bye laws which should expressly provide that the DPs shall execute the non pay-in related instructions on the same day or on the next day of the instruction. Further, pending such amendment, suitable instructions may be issued to DPs to adhere to such time limit.
- iii. The above clause may be suitably incorporated in the DP-BO agreement while opening new accounts.

4.5 *Approval of amendments to Bye Laws / Rules of Stock Exchanges and Depositories*⁸⁹

- i. Depositories and exchanges shall submit the following information while seeking SEBI approval for amendment to Bye Laws/ Rules/ Regulations and amendments thereto:
 - a. The objective/purpose of amendments.
 - b. Whether the amendment is consequential to any directive/circulars/ guidelines from SEBI/ Government and the details thereof.
 - c. Whether such amendments necessitate any consequential amendments to any other Bye Laws/ Rules/ Regulations.

⁸⁹ Reference Circular LGL/Cir-2/2003 dated February 19, 2003



- d. The proceedings of the Governing Board or Governing Council, as the case may be, wherein these proposed amendments were approved by the Exchanges/ Depositories.
 - e. If documents other than Bye Laws/ Rules/ Regulations are sent for approval, the justification and need for forwarding the same to SEBI, indicating whether it forms a part of any Bye Law/ Rule/ Regulation.
- ii. Further, all Exchanges shall ensure that requests for dispensation of the requirement of pre-publication shall be accompanied with proper justification and indicate how the public interest or interest of trade shall be served by such dispensation of pre-publication.

4.6 *Preservation of Records*⁹⁰

- i. Depositories and Depository Participants are required to preserve the records and documents for a minimum period of 5 year.
- ii. Depositories and DPs shall preserve respective original forms of documents either in physical form or an electronic record, copies of which have been taken by CBI, Police or any other enforcement agency during the course of their investigation till the trial is completed.

4.7 *Pledge of Shares through depository system*⁹¹

- i. Section 12 of the Depositories Act and Regulation 79 of the SEBI (Depositories and Participants) Regulations, 2018 along with the relevant Bye Laws of the Depositories clearly enumerate the manner of creating pledge. It is felt that there is a need to communicate to the BOs that any procedure followed other than as specified under the aforesaid provisions of law shall not be treated as pledge.
- ii. In order to clarify the same, the depositories are advised to issue a communiqué to the DPs advising them to inform BOs about the procedure

⁹⁰Reference Circular SEBI/MRD/DEP/Cir-24/05 dated December 22, 2005, circular SEBI/MRD/SE/Cir-16/2005 dated August 04, 2005 and circular MRD/DoP/DEP/Cir-20/2009 dated December 9, 2009

⁹¹ Reference: MRD/DoP/MAS – OW/16723/2010 dated August 17, 2010



for pledging of shares held in demat form as enumerated in the relevant sections of the Depositories Act and SEBI (Depositories and Participants) Regulations, 2018. Depositories may also advise DPs that an off-market transfer of shares leads to change in ownership and cannot be treated as pledge. Further, this issue may also be taken up in the investor awareness programs wherein the manner of creation of pledge can be effectively communicated to the BOs directly.

4.8 *Foreign investments in infrastructure companies in securities markets*⁹²

- i. Pursuant to Government of India Policy, foreign investments in infrastructure companies in the securities markets, namely Stock Exchanges, Depositories and Clearing Corporations shall be as under:
 - a. Foreign investment shall be allowed in such companies up to 49% with a separate Foreign Direct Investment (FDI) cap of 26% and Foreign Institutional Investment (FII) cap of 23%;
 - b. FDI shall be allowed with specific prior approval of FIPB;
 - c. FII shall be allowed only through purchases in the secondary market;
 - d. FII shall not seek and will not get representation on the Board of Directors;
 - e. No foreign investor, including persons acting in concert, will hold more than 5% of the equity in these companies.
- ii. The aforesaid limits for foreign investment in respect of recognised Stock Exchanges shall be subject to 5% shareholding limit as prescribed under the Securities Contracts (Regulation) (Manner of Increasing and Maintaining Public Shareholding in Recognised Stock Exchanges) Regulations, 2006.

4.9 *Designated e-mail ID for regulatory communication with SEBI*⁹³

⁹² Reference Circular MRD/DSA/SE/Dep/Cust/Cir-23/06 dated December 22, 2006

⁹³ Reference Circular MIRSD/DPS- III/Cir-23/08 dated July 25, 2008



Depositories shall create a designated e-mail id for regulatory communication and inform it to SEBI. This e-mail id shall be exclusive and shall not be person-centric.

4.10 *Designated e-mail ID for redressal of investor complaints⁹⁴*

- i. Depositories and registered DPs shall designate an exclusive e-mail ID for the grievance redressal division/compliance officer exclusively for registering investor complaints.
- ii. The designated email ID and other relevant details shall be prominently displayed on the websites and in the various materials/pamphlets/advertisement campaigns initiated by the Depositories and DPs for creating investor awareness.

4.11 *Redressal of complaints against Stock Exchanges (SEs) and Depositories through SEBI Complaints Redress System (SCORES).⁹⁵*

- i. The complaints received by SEBI against SEs and Depositories shall be electronically sent through SCORES. Depositories are advised to view the pending complaints at <http://scores.gov.in/admin> and submit the Action Taken Report (ATR) along with supporting documents electronically in SCORES. Updation of action taken shall not be possible with physical ATRs. Hence, submission of physical ATR shall not be accepted for complaints lodged in SCORES.
- ii. The SEs and Depositories shall do the following:
 - a. indicate a contact person in case of SCORES, who is an employee heading the complaint services division/cell/department. Contact detail (i.e. phone no., email id, postal address) of the said contact person be made widely available for e.g. on the websites of Depositories.

⁹⁴ Reference Circular MRD/DoP/Dep/SE/Cir-22/06 dated December 18, 2006

⁹⁵ Reference Circular CIR/MRD/ICC/16/2012 dated June 15, 2012



- b. address/redress the complaints within a period of 15 days upon receipt of complaint through SCORES⁹⁶. In case additional information is required from the complainant, the same shall be sought within 7 days from the receipt of the complaint through SCORES. In such case, the period of 15 days will be counted upon the receipt of additional information.
- c. maintain a monthly record of the complaints which are not addressed/redressed within 15 days from the date of receipt of the complaint/information, alongwith the reason for such pendency.
- d. Upload/update the ATR on the SCORES. Failure to do so shall be considered as non-redressal of the complaint and the complaint shall be shown as pending.

4.12 *Limitation period for filing an arbitration reference⁹⁷*

- i. It is decided that the limitation period for filing an arbitration reference shall be governed by the law of limitation, i.e., The Limitation Act, 1963. The modified limitation period shall also be applicable to cover inter alia the following cases:
 - a. where the limitation period (in terms of Limitation Act 1963) have not yet elapsed and the parties have not filed for arbitration with the depository,
 - OR
 - b. where the arbitration application was filed but was rejected solely on the ground of delay in filing within the earlier limitation period; and the limitation period (in terms of Limitation Act 1963) have not yet elapsed.

⁹⁶ Reference Circular SEBI/HO/MIRSD/MIRSD6/CIR/P/2017/20 dated March 10, 2017 –replaced sentence from “within 7 days of receipt on SCORES” to “within 7 days from the receipt of the complaint through SCROES”

⁹⁷ Reference Circular CIR/MRD/DP/4/2011 dated April 7, 2011



4.13 *Disclosure of investor complaints and arbitration details on Depository website⁹⁸*

Depositories shall disclose the details of complaints lodged by Beneficiary Owners (BO's)/ investors against Depository Participants (DPs) in their website. The aforesaid disclosure shall also include details pertaining to arbitration and penal action against the DPs.

The format for the reports for the aforesaid disclosure consists of the following reports:

- i. Report 1A: Complaints received against DPs during 2009-10
- ii. Report 1B: Redressal of Complaints received against DPS during 2008-09
- iii. Report 1C: Redressal of Complaints received against DPs during 2009-10
- iv. Report 2A: Details of Arbitration Proceedings (where Investor is a party) during 2008-09:
- v. Report 2B: Details of Arbitration Proceedings (where Investor is a party) during 2009-10
- vi. Report 3A: Penal Actions against DPs during 2008-09
- vii. Report 3B: Penal Actions against DPs during 2009-10
- viii. Report 4A: Redressal of Complaints lodged by investors against Listed Companies during 2008 -09
- ix. Report 4B: Redressal of Complaints lodged by investors against Listed Companies during 2009 -10

⁹⁸ Reference Circular SEBI/MRD/ OIAE/ Dep/ Cir- 4/2010 dated January 29, 2010

[illegible]



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N										

including against its authorized persons, employees, etc.

Status date is the date of resolution/reference to arbitration/finding it non-actionable. If under process, it is the date of
updatation of this sheet. */** As per Table 1



Report 1B: Redressal of Complaints received against Depository Participants (DPs) during 2008-09: Updated on mmm dd yyyy (to be updated every quarter) (In excel sheet)

[illegible]



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N												
Total												

*including against its authorized persons, employees, etc.

****Non actionable** means the complaint that are incomplete / outside the scope of Depository
(Arrange the DPs in descending number of complaints filed against them during the period)

[illegible]



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*including against authorized persons, employees, etc.

****Non actionable** means the complaint that are incomplete / outside the scope of Depository
(Arrange the DPs in descending number of complaints filed against them during the period)

[illegible]



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N									
Total									

(In case of panel of arbitrators, the cases / awards would appear against every member of the panel)

(Arrange the arbitrators in descending number of awards passed by them during the period)

Report 2B: Details of Arbitration Proceedings (where BO is a party) during 2009-10: Updated on mmm dd yyyy (to be updated every quarter) (In excel sheet)

Sl. No.	Name of Arbitrator	No. of Awards Passed	No. of Awards in favor of BOs		No. of Awards appealed	No. of Awards Implemented	No. of cases pending for redressal at the end of period		
			Filed by DP	Filed by BO			Pending	For more than 6 months	For more than 3 months, but less than 6 months
1									
2									
3									



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N									
Total									

(In case of panel of arbitrators, the cases / awards would appear against every member of the panel)
(Arrange the arbitrators in descending number of awards passed by them during the period)



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Report 3A: Penal Actions against Depository Participants (DPs) during 2008-09: Updated on mmm dd yyyy (to be updated every quarter) (in excel sheet)

Sl. No.	Name of DP	Registration No.	No. of Complaints received	Action against DP, its authorized person and employees together				
				No. of Penal Orders issued		Monetary Penalties levied (Rs. lakh)		No. of Arbitration Awards issued against DP
				For complaints	For others	For complaints	For others	
1								
2								
3								
N								



Report 3B: Penal Actions against Depository Participants (DPs) during 2009-10: Updated on mmm dd yyyy (to be updated every quarter) (in excel sheet)

Sl. No.	Name of DP	Registration No.	No. of Complaints received	Action against DP, its authorized person and employees together				
				No. of Penal Orders issued		Monetary Penalties levied (Rs. lakh)		No. of Arbitration Awards issued against DP
				For complaints	For others	For complaints	For others	
1								
2								
3								
N								



Report 4A: Redressal of Complaints lodged by investors against Listed Companies during 2008 -09: Updated on mmm dd yyyy
(to be updated every quarter) (In excel format)

[illegible]



***Non actionable** means the complaint that are incomplete / outside the scope of Depository
(Arrange the companies in descending number of complaints filed against them during the period)

[illegible]



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N					
Total					

***Non actionable** means the complaints that are incomplete / outside the scope of Depository
(Arrange the companies in descending number of complaints filed against them during the period)



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Table 1 A

Type	Details
Type I	Account Opening Related
I a	Denial in opening an account
I b	Account opened in another name than as requested
I c	Non receipt of Account Opening Kit
I d	Delay in activation/ opening of account
I e	Non Receipt of copy of DP Client Agreement/Schedule A of Charges
Type II	Demat/Remat Related
II a	Delay in Dematerialisation request processing
II b	Delay in Rematerialisation request processing
II c	Delay in/ Non-Receipt of Original certificate after demat rejection
II d	Non Acceptance of demat/remat request
Type III	Transaction Statement Related
III a	Delay in/ Non-Receipt of Statements from DP
III b	Discrepancy in Transaction statement
Type IV	Improper Service Related
IV a	Insistence on Power of Attorney in its favour
IV b	Deactivation/ Freezing/ Suspension related
IV c	Defreezing related
IV d	Transmission Related
IV e	Pledge Related
IV f	SMS Related
IV g	Non-updation of changes in account (address/ signatories/ bank details/ PAN/ Nomination etc.)
Type V	Charges Related
V a	Wrong/ Excess Charges
V b	Charges paid but not credited
V c	Charges for Opening/closure of Account
Type VI	Delivery Instruction Related (DIS)
VI a	Non acceptance of DIS for transfer



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VI b	Delay in/ non Execution of DIS
VI c	Delay in Issuance / Reissuance of DIS Booklet
Type VII	Closure
VII a	Non closure/ delay in closure of account
VII b	Closure of a/c without intimation by DP
Type VIII	Manipulation/ Unauthorised Action
VIII a	Unauthorised Transaction in account
VIII b	Manipulation
VIII c	Unauthorised changes in account (address/ signatories/bank details/PAN etc.)
Type IX	Company/ RTA related
IX a	Action – Cash
IX b	Action – Non-Cash
IX c	Initial Public Offer/ Follow-on Public Offer Related
Type X	Others

** Status	
Type	Description
I	Non actionable
I a	Complaint incomplete
I b	Outside the scope of Depository
I c	Pertains to non-responding company.
II	Resolved
III	Under Process
IV	Referred to Arbitration
V	Forwarded to Company/RTA for appropriate action.



4.14 *Disclosure of regulatory orders and arbitration awards on Depository website⁹⁹*

Depositories shall post all their regulatory orders and arbitration awards issued since April 1, 2007. Further, all regulatory orders and arbitration awards as and when issued shall be posted on their website immediately.

4.15 **Arbitration / Appellate Arbitration fees on the remanded back matter for fresh arbitration proceedings¹⁰⁰**

1. It has been observed that in cases remanded by court of law, the stock exchanges/depositories are directed to undertake arbitration/appellate arbitration proceedings again. In some cases, the clients/investors are liable to pay the arbitration fees again, even when the same has been paid by them for the initial arbitration/appellate arbitration proceedings.
2. It has been decided that in such cases where the arbitration/appellate arbitration matter has been remanded by the Court to the stock exchanges/depositories, the arbitration/appellate arbitration fees/deposit payable by the client shall be borne by such stock exchange/depository.

4.16 *Establishment of connectivity by Clearing House / Clearing Corporation (CH/CC) with the Depository - Clarification¹⁰¹*

- i. On examination of the provisions of Regulations 35(a) and 45 of the SEBI (Depositories and Participants) Regulations, 2018, it is advised that registration of a CC/CH of a stock exchange as a DP with SEBI is not mandatory and a pre-requisite for it to obtain connectivity with the depositories. However, if the CC/CH of a stock exchange desires to function as any other "Depository Participant", i.e. to open BO accounts for investors or clearing member account, registration as DP with SEBI is mandatory.
- ii. In view of the above, Depositories are advised to provide continuous electronic means of communication / connectivity to the CH/CC of the Exchanges without insisting for a mandatory registration as DP with SEBI with a condition that such entities would not be permitted to open BO accounts for investors or clearing member account.

⁹⁹ Reference Circular SEBI/MRD/ DP/ 19/2010 dated June 10, 2010

¹⁰⁰ Reference : SEBI letter SEBI/MRD/ICC/OW/P/2018/27066/1 dated September 25, 2018

¹⁰¹ Reference: MRD/DoP/ Dep/82334 /2006 dated December 14, 2006



4.17 *Computing and monitoring of the Aggregate Value of Portfolio of Securities (AVPS) of the BOs held in dematerialised form by Stock Broker DPs*

- i. For the purpose of computing the AVPS of the beneficial owners held in dematerialised form under Regulation 35(a)(viii) of SEBI (Depositories and Participant) Regulations, 2018, the securities held by bank and financial institutions as well as promoters holdings of a company held in dematerialised form, may be excluded¹⁰².
- ii. In view of the potential risk to the system and also to maintain the integrity of the market, the depositories are advised to develop an appropriate systemic alert in the depository system, so as to enable the system to generate and convey automatic alerts to those SBDPs that reach a pre-determined level of exposure. These alerts would serve as forewarnings to the SBDPs to the fact that they are approaching their respective maximum exposure limits. [Note: For this purpose, the depositories may monitor the value of securities with its SBDPs on an "end of the day" basis.]¹⁰³

4.18 *Rajiv Gandhi Equity Savings Scheme, 2012 (RGESS)¹⁰⁴*

- i. Vide notification 51/2012 dated November 23, 2012, Department of Revenue, Ministry of Finance (MoF) has notified the Rajiv Gandhi Equity Savings Scheme (RGESS), 2012. The notification is available on the website of Income Tax Department under section "Notifications".
- ii. With regard to implementation of the MoF notification, the following is clarified:
 - a. For RGESS eligible close-ended Mutual Funds schemes, advice given by AMCs to the depository for extinguishment of units of close ended schemes upon maturity of the scheme shall be considered as settled through depository mechanism and therefore RGESS compliant.
 - b. AMCs shall disclose that the concerned RGESS eligible Exchange Traded Funds and Mutual Fund schemes is in compliance with the

¹⁰² Reference: SMDRP/RKD /NSDL/2494 /98 dated November 18, 1998, SMDRP/CDSL / 18300 /2000 dated November 16, 2000

¹⁰³ Reference: MRD/DRK/SU/16034/2003 dated August 22, 2003

¹⁰⁴ Reference Circular CIR/MRD/DP/32/201 dated December 06, 2012



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provisions of RGESS guidelines notified by Ministry of Finance vide notification no. 51/2012 F. No. 142/35/2012-TPL dated November 23, 2012, in Scheme Information Document (SID), in case of new fund offer, or by way of addendum, in case of existing RGESS eligible Exchange Traded Funds and Mutual Fund schemes.

- c. Section 6(c) of the notification states that the eligible securities brought into the demat account will automatically be subject to lock-in during the first year, unless the new investor specifies otherwise and for such specifications, the new retail investors shall submit a declaration in Form B indicating that such securities are not to be included within the above limit of investment. It is clarified that such declaration shall be submitted by an investor to its Depository Participant within a period of one month from the date of transaction.
 - d. For transactions undertaken by investors through their RGESS designated demat account, Depositories may seek necessary transactional details from stock exchanges viz. Actual Trade value, Trading date, Settlement number, etc, for the purpose of enforcing lock-in and for generating reports mandated vide MoF notification on RGESS. On receipt of such request from depositories, stock exchanges shall provide the details to depositories on an immediate basis. It shall also be ensured that a uniform file structure is used by stock exchanges and depositories for such intimation of transaction details.
 - e. With regard to point 3(ix) (a) & (b) of RGESS notification, depositories may seek confirmation, as applicable, from stock exchanges.
 - f. With regard to the securities held in the RGESS designated account, treatment of the corporate actions shall be as given at Annexure A.
- iii. Stock exchanges shall furnish list of RGESS eligible stocks / ETFs / MF schemes on their website. Further, the list shall also be forwarded to the depositories at monthly intervals and whenever there is any change in the said list. For this purpose, Mutual Funds / AMCs shall communicate list of RGESS eligible MF schemes / ETFs to the stock exchanges.



Annexure A

Treatment of corporate actions

(i) Involuntary corporate actions: In case of corporate actions where investors has no choice in the matter, for example: demerger of companies, etc, the compliance status of RGESS demat account shall not change.

(ii) Voluntary corporate actions: In case of corporate actions where investors has the option to exercise his choice and thereby result in debit of securities, for example: buy-back, etc, the same shall be considered as a sale transaction for the purpose of the scheme.

Consolidated list of 'corporate actions'

Sr. No.	Corporate Action	Classification (Involuntary or Voluntary)
1	Amalgamation	Involuntary
2	Scheme of Arrangement	Involuntary
3	Reduction of Capital	Involuntary
4	Bonus issue	Involuntary
5	Buy Back of Shares	Voluntary (Involuntary in case of court intervention)
6	Stock Split	Involuntary
7	Consolidation of Shares	Involuntary
8	Conversion of Partly Paid up	Involuntary
9	Dividend [Final/ Interim/ Special]	Involuntary
10	Exchange of Share Certificate [Name change]	Involuntary
11	Rights Issue	Voluntary
12	Conversion (compulsory)*	Involuntary
13	Conversion (optionally)*	Involuntary
14	Redemption	Involuntary (voluntary, if there is option to continue with revised terms)
15	Dividend on Mutual Fund	Involuntary
16	Redemption of Mutual Fund	Involuntary on maturity (voluntary, if there is option to shift between different scheme(s) or on account of exit



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		option due to change in fundamental attributes of scheme)
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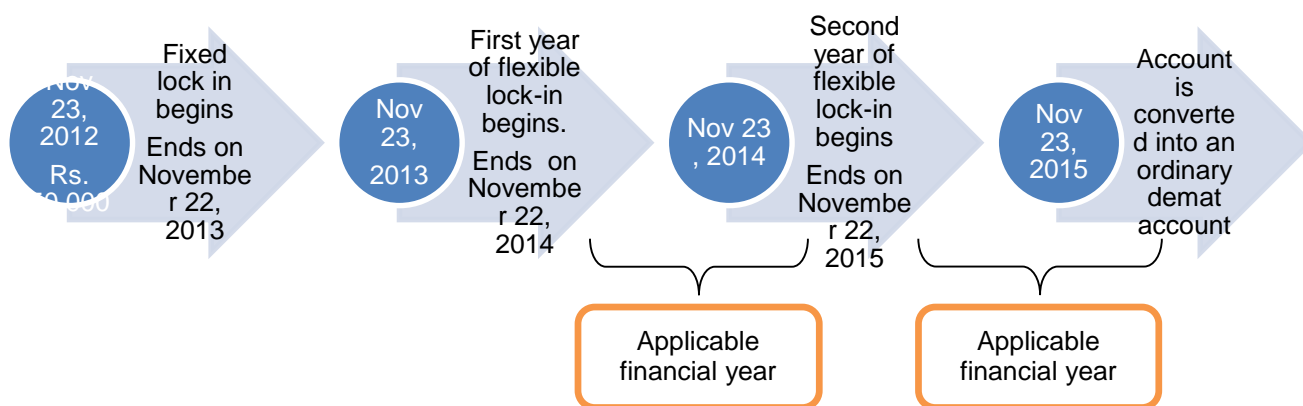
* Considering any conversion into equities (e.g.: Conversion of warrants into equities)

End of Annexure A



Annexure B – Illustration of lock-in period in RGESS

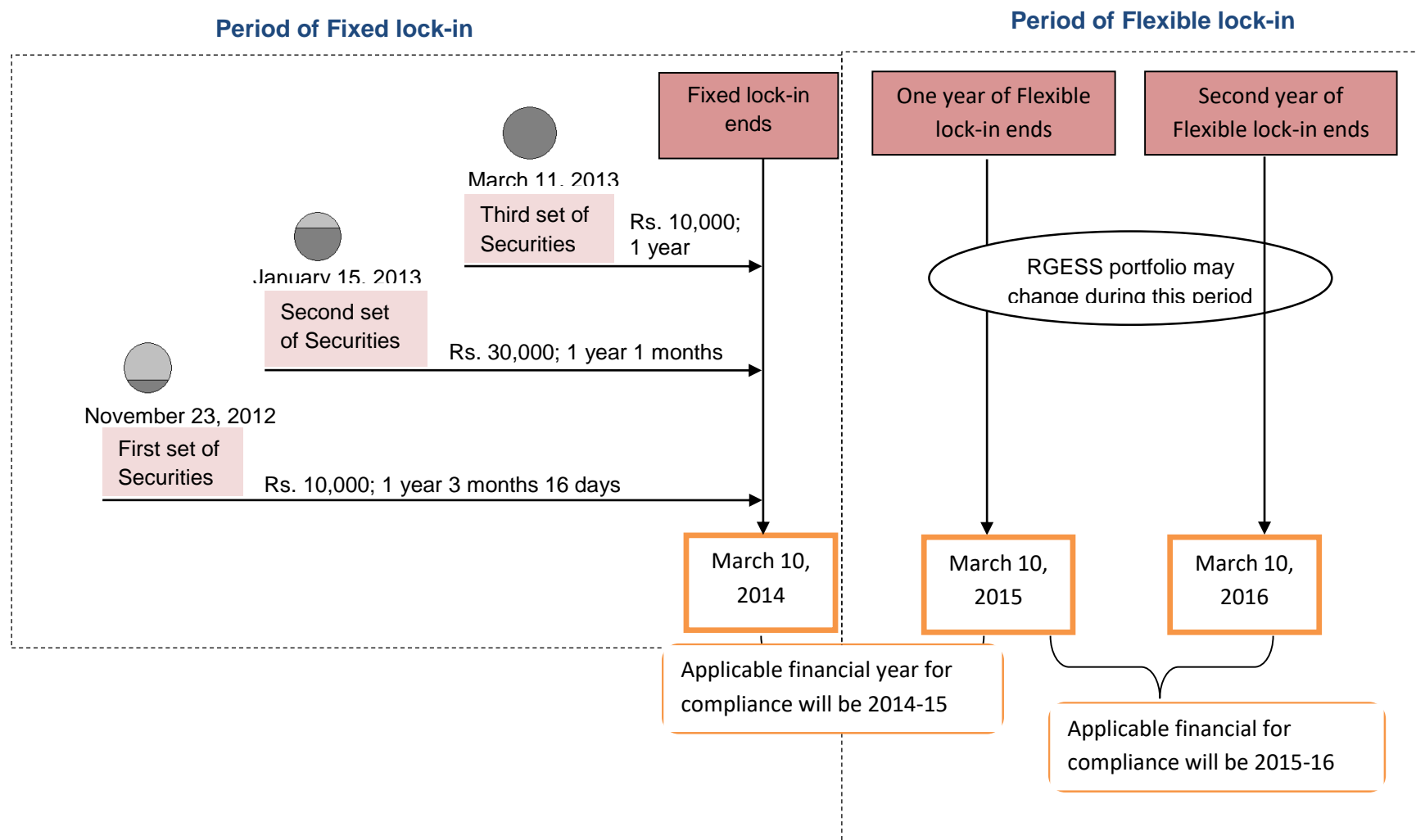
I. RGESS lock-in period if investments are brought in at once





Annexure B – Illustration of lock-in period in RGESS

I. RGESS lock-in period if investments are brought are in installments





4.19 *Principles of Financial Market Infrastructures (PFMIs)*¹⁰⁵

Background

- i. To promote and sustain an efficient and robust global financial infrastructure, the Committee on Payments and Settlement Systems (CPSS) and the International Organization of Securities Commissions (IOSCO) published the *Principles for financial market infrastructures*¹ (PFMIs) on April 2012. They replace the three existing sets of international standards set out in the Core Principles for Systemically Important Payment Systems (CPSIPS); the Recommendations for Securities Settlement Systems (RSSS); and the Recommendations for Central Counterparties (RCCP). CPSS and IOSCO have strengthened and harmonised these three sets of standards by raising minimum requirements, providing more detailed guidance and broadening the scope of the standards to cover new risk-management areas and new types of FMIs.
- ii. The PFMIs comprise of **24 principles** (Annex 1) for Financial Market Infrastructure to provide for effective regulation, supervision and oversight of FMIs. They are designed to ensure that the infrastructure supporting global financial markets is robust and well placed to withstand financial shocks.
- iii. Full, timely and consistent implementation of the PFMIs is fundamental to ensuring the safety, soundness and efficiency of key FMIs and for supporting the resilience of the global financial system. In addition, the PFMIs play an important part in the G20's mandate that all standardized over-the-counter (OTC) derivatives should be centrally cleared. Global central clearing requirements reinforce the importance of strong safeguards and consistent oversight of derivatives CCPs in particular.

Financial Market Infrastructure (FMI)

- iv. The Principles apply to systematically important financial market infrastructures entities such as Central Counterparty (CCP), Central

¹⁰⁵ Reference Circular SEBI/MRD/DRMNP/26/2013 dated September 04, 2013



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Securities Depository (CSD)/ Securities Settlement System (SSS), Payment and Settlement systems, and Trade Repository (TR) which are responsible for providing clearing, settlement and recording of monetary and other financial transactions. The principles are international standards set forth to –

- a. Enhance safety and efficiency in payment, clearing, settlement, and recording arrangements,
 - b. Reduce systemic risk.
 - c. Foster transparency and financial stability and
 - d. Promote protection of participants and investors.
- v. Financial Market Infrastructure (FMI) are critically important institutions responsible for providing clearing, settlement and recording of monetary and other financial transactions. The different categories of FMIs, as identified under PFMI, are listed below -

Payment Systems (PSS)

A payment system is a set of instruments, procedures, and rules for the transfer of funds between or among participants. The system includes the participants and the entity operating the arrangement. Payment systems are typically based on an agreement between or among participants and the operator of the arrangement, and the transfer of funds is effected using an agreed-upon operational infrastructure.

Central Securities Depositories (CSD)

Central securities depository provides securities accounts, central safekeeping services, and asset services, which may include the administration of corporate actions and redemptions, and plays an important role in helping to ensure the integrity of securities issues (that is, ensure that securities are not accidentally or fraudulently created or destroyed or their details changed). A CSD can hold securities either in physical form (but immobilised) or in dematerialised form (that is, they exist only as electronic records). A CSD may maintain the definitive record of legal ownership for a security; in some cases, however, a separate securities registrar will serve this notary function.



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Securities Settlement Systems (SSS)

A securities settlement system enables securities to be transferred and settled by book entry according to a set of predetermined multilateral rules. Such systems allow transfers of securities either free of payment or against payment. When transfer is against payment, many systems provide delivery versus payment (DvP), where delivery of the security occurs if and only if payment occurs. An SSS may be organised to provide additional securities clearing and settlement functions, such as the confirmation of trade and settlement instructions.

Central Counterparties (CCP)

A central counterparty interposes itself between counterparties to contracts traded in one or more financial markets, becoming the buyer to every seller and the seller to every buyer and thereby ensuring the performance of open contracts. A CCP becomes counterparty to trades with market participants through novation, an open-offer system, or through an analogous legally binding arrangement. CCPs have the potential to significantly reduce risks to participants through the multilateral netting of trades and by imposing more effective risk controls on all participants. For example, CCPs typically require participants to provide collateral (in the form of initial margin and other financial resources) to cover current and potential future exposures. CCPs may also mutualise certain risks through devices such as default funds. As a result of their potential to reduce risks to participants, CCPs also can reduce systemic risk in the markets they serve.

Trade Repositories (TR)

A trade repository is an entity that maintains a centralised electronic record (database) of transaction data. TRs have emerged as a new type of FMI and have recently grown in importance, particularly in the OTC derivatives market. By centralising the collection, storage, and dissemination of data, a well designed TR that operates with effective risk controls can serve an important role in enhancing the transparency of transaction information to relevant authorities and the public, promoting financial stability, and supporting the detection and prevention of market



abuse. An important function of a TR is to provide information that supports risk reduction, operational efficiency and effectiveness, and cost savings for both individual entities and the market as a whole. Such entities may include the principals to a trade, their agents, CCPs, and other service providers offering complementary services, including central settlement of payment obligations, electronic novation and affirmation, portfolio compression and reconciliation, and collateral.

Adoption of Principles of Financial Market Infrastructures

- vi. All CPSS and IOSCO members are required to strive to adopt the PFMI and implement them in their respective jurisdictions.
- vii. SEBI as a member of IOSCO is committed to the adoption and implementation of the new CPSS-IOSCO standards of PFMI in its regulatory functions of oversight, supervision and governance of the key financial market infrastructures under its purview.
- viii. Depositories and Clearing Corporations regulated by SEBI are FMIs in terms of the criteria described above. These systemically important financial infrastructures provide essential facilities and perform systemically critical functions in the market and shall hence be required to comply with the principles of financial market infrastructures specified by CPSS-IOSCO as applicable to them. The list of SEBI regulated FMIs is provided in **Annexure 2**.
- ix. All FMIs in the securities market shall be monitored and assessed against the PFMI on a periodic basis.

Annexure 1

Principles for financial market infrastructures

General Organisation

Principle 1: Legal basis



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An FMI should have a well-founded, clear, transparent, and enforceable legal basis for each material aspect of its activities in all relevant jurisdictions.

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.

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. Credit and liquidity risk management.

Principle 4: Credit risk

An FMI should effectively measure, monitor, and manage its credit exposures to participants and those arising from its payment, clearing, and settlement processes. An FMI should maintain sufficient financial resources to cover its credit exposure to each participant fully with a high degree of confidence. In addition, a CCP that is involved in activities with a more-complex risk profile or that is systemically important in multiple jurisdictions should maintain additional financial resources sufficient to cover a wide range of potential stress scenarios that should include, but not be limited to, the default of the two participants and their affiliates that would potentially cause the largest aggregate credit exposure to the CCP in extreme but plausible market conditions. All other CCPs should maintain additional financial resources sufficient to cover a wide range of potential stress scenarios that should include, but not be limited to, the default of the participant and its affiliates that would potentially cause the largest aggregate credit exposure to the CCP in extreme but plausible market conditions.

Principle 5: Collateral



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An FMI that requires collateral to manage its or its participants' credit exposure should accept collateral with low credit, liquidity, and market risks. An FMI should also set and enforce appropriately conservative haircuts and concentration limits.

Principle 6: Margin

A CCP should cover its credit exposures to its participants for all products through an effective margin system that is risk-based and regularly reviewed.

Principle 7: Liquidity risk

An FMI should effectively measure, monitor, and manage its liquidity risk. An FMI should maintain sufficient liquid resources in all relevant currencies to effect same-day and, where appropriate, intraday and multiday settlement of payment obligations with a high degree of confidence under a wide range of potential stress scenarios that should include, but not be limited to, the default of the participant and its affiliates that would generate the largest aggregate liquidity obligation for the FMI in extreme but plausible market conditions.

Settlement

Principle 8: Settlement finality

An FMI should provide clear and certain final settlement, at a minimum by the end of the value date. Where necessary or preferable, an FMI should provide final settlement intraday or in real time.

Principle 9: Money settlements

An FMI should conduct its money settlements in central bank money where practical and available. If central bank money is not used, an FMI should minimise and strictly control the credit and liquidity risk arising from the use of commercial bank money.

Principle 10: Physical deliveries



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An FMI should clearly state its obligations with respect to the delivery of physical instruments or commodities and should identify, monitor, and manage the risks associated with such physical deliveries.

Central securities depositories and exchange-of-value settlement systems

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.

Principle 12: Exchange-of-value settlement systems

If an FMI settles transactions that involve the settlement of two linked obligations (for example, securities or foreign exchange transactions), it should eliminate principal risk by conditioning the final settlement of one obligation upon the final settlement of the other.

Default management

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.

Principle 14: Segregation and portability

A CCP should have rules and procedures that enable the segregation and portability of positions of a participant's customers and the collateral provided to the CCP with respect to those positions.

General business and operational risk management



Principle 15: General business risk

An FMI should identify, monitor, and manage its general business risk and hold sufficient liquid net assets funded by equity to cover potential general business losses so that it can continue operations and services as a going concern if those losses materialise. Further, liquid net assets should at all times be sufficient to ensure a recovery or orderly wind-down of critical operations and services.

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.

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 fulfillment of the FMI's obligations, including in the event of a wide-scale or major disruption.

Access

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.

Principle 19: Tiered participation arrangements

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



Principle 20: FMI links

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

Efficiency

Principle 21: Efficiency and effectiveness

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

Principle 22: Communication procedures and standards

An FMI should use, or at a minimum accommodate, relevant internationally accepted communication procedures and standards in order to facilitate efficient payment, clearing, settlement, and recording.

Transparency

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.

Principle 24: Disclosure of market data by trade repositories

A TR should provide timely and accurate data to relevant authorities and the public in line with their respective needs.

End of Annexure 1



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Annexure 2

1. Clearing Corporations

- a. Indian Clearing Corporation Ltd. (ICCL)
- b. Metropolitan Clearing Corporation of India Ltd. (MCCIL)
- c. National Securities Clearing Corporation Ltd. (NSCCL)

2. Depositories

- a. Central Depository Services Ltd. (CDSL)
- b. National Securities Depository Ltd (NSDL)

End of Annexure 2



4.20 *Annual System Audit of Depositories* ¹⁰⁶

- i. The depositories should annually conduct System Audit as per the System Audit Framework. The system audit framework encompasses the System Audit Process, Auditor Selection Norms, Terms of Reference (TOR), and Audit Report Guidelines as per the annexure below.
- ii. The Systems Audit Reports and Compliance Status should be placed before the Governing Board of the depositories and the system audit report along with comments of depositories should be communicated to SEBI. Further, along with the audit report, depositories are advised to submit a declaration from the MD / CEO certifying the security and integrity of their IT Systems.

Annexure

System Audit Framework

Audit Process

Following steps would be repeated annually to ensure that the process is comprehensive & effective:

1. The Audit shall be conducted according to the Norms, Terms of References (TOR) and Guidelines issued by SEBI.

¹⁰⁶ Circular No. CIR/MRD/DMS/13/2011 dated November 29, 2011



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2. Stock Exchange / Depository (Auditee) may negotiate and the board of the Stock Exchange / Depository shall appoint the Auditors based on the prescribed Auditor Selection Norms and TOR. The Auditors can perform a maximum of 3 successive audits. The proposal from Auditor must be submitted to SEBI for records.
3. Audit schedule shall be submitted to SEBI at-least 2 months in advance, along with scope of current audit & previous audit.
4. The scope of the Audit may be extended by SEBI, considering the changes which have taken place during last year or post previous audit report
5. Audit has to be conducted and the Audit report be submitted to the Auditee. The report should have specific compliance / non-compliance issues, observations for minor deviations as well as qualitative comments for scope for improvement. The report should also take previous audit reports in consideration and cover any open items therein.
6. The Auditee management provides their comment about the Non-Conformities (NCs) and observations. For each NC, specific time-bound (within 3 months) corrective action must be taken and reported to SEBI. The auditor should indicate if a follow-on audit is required to review the status of NCs. The report along with Management Comments shall be submitted to SEBI, within 1 month of completion of the audit.
7. Follow-on audit, if any, has to be scheduled within 3 months of the Audit to ensure that the corrective actions have been taken.
8. If follow-on audit is not required, the Auditee management has to submit a report of actions taken and evidence of corrections to the Auditors & SEBI within 3 months. This report should include updated Issue-Log to indicate the corrective actions taken, verified by the auditors.

Auditor Selection Norms

1. Auditor must have minimum 3 years of experience in IT audit of Securities Industry participants e.g. stock exchanges, clearing houses, depositories etc. The audit experience should have covered all the Major Areas mentioned under SEBI's Audit Terms of Reference (TOR).
2. The Auditor must have experience in / direct access to experienced resources in the areas covered under TOR. It is recommended that resources employed



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shall have relevant industry recognized certifications e.g. CISA (Certified Information Systems Auditor) from ISACA, CISM (Certified Information Securities Manager) from ISACA, GSNA (GIAC Systems and Network Auditor), CISSP (Certified Information Systems Security Professional) from International Information Systems Security Certification Consortium, commonly known as (ISC)².

3. The Auditor should have IT audit/governance frameworks and processes conforming to industry leading practices like CobiT.
4. The Auditor must not have any conflict of interest in conducting fair, objective and independent audit of the Exchange / Depository. It should not have been engaged over the last three years in any consulting engagement with any departments / units of the entity being audited.

The Auditor may not have any cases pending against its previous auditees, which fall under SEBI's jurisdiction, which point to its incompetence and/or unsuitability to perform the audit task.

Terms of Reference (ToR)

1. General Controls for Data Center Facilities - It must include
 - > Application access - Segregation of duties, Database & Application access etc.
 - > Maintenance access - Vendor engineers.
 - > Physical access - Permissions, logging, exception reporting & alerts.
 - > Environmental controls - Fire protection, AC monitoring etc.
 - > Fault resolution mechanism.
 - > Folder sharing and Back-up controls - Safeguard critical information on local desktops
 - > Incidences of violations in last year & corrective actions taken
2. Software Change Control - It must include
 - > User awareness
 - > Processing of new feature request
 - > Fault reporting / tracking mechanism & process for resolutions
 - > Testing of New releases / Bug-fixes - Testing process (automation level)
 - > Version Control - History, Change Management process etc.
 - > Development / Test/ Production environment - Segregation
 - > New release in Production - Promotion, Release note approvals



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- > Production issues / disruptions reported during last year & corrective actions taken.
- 3. Data communication / Network controls - It must include
 - > Network Administration - Redundancy, Monitoring, breakdown resolution etc.
 - > WAN Management - Connectivity provisions for business continuity.
 - > Encryption - Router based as well as during transmission
 - > Connection Permissions - Restriction on need to have basis
 - > Fallback mechanism - Dial-up connections controls etc.
 - > Hardware based Signing Process
 - > Incidences of access violations in last year & corrective actions taken
- 4. Security Controls - General office infrastructure - It must include
 - > Security Policy & quality of implementation of the same
 - > LAN security control and monitoring
 - > OS & Database Security controls & monitoring
 - > Internet connection controls - Firewall protection, Intrusion Detection System, Access rights and privileges.
 - > Virus protection - Controls to mitigate the Virus attacks / Outbreaks.
 - > Secured (digitally signed) e-mail with other entities like SEBI, other partners
 - > Email Archival Implementation
 - > Incidences of security violations in last year & corrective actions taken.
- 5. Access policy and controls
- 6. Electronic Document controls
- 7. General Access controls
- 8. Performance audit - It must include
 - > Comparison of changes in transaction volumes since previous audit
 - > Review of systems (hardware, software, network) performance over period
 - > Review of the current volumes against the last Performance Test performed



9. Business Continuity / Disaster Recovery Facilities - It must include
 - > BCP manual, including Business Impact Analysis, Risk Assessment and DR process
 - > Implementation of policies
 - > Back-up procedures and recovery mechanism using back-ups.
 - > Storage of Back-up (Remote site, DRS etc.)
 - > Redundancy - Equipment, Network, Site etc.
 - > DRS installation and Drills - Management statement on targeted resumption capability (in terms of time required & extent of loss of data)
 - > Evidence of achieving the set targets during the DRS drills in event of various disaster scenarios.
 - > Debrief / review of any actual event when the DR/BCP was invoked during the year
10. IT Support & IT Asset Management - It must include
 - > Utilization monitoring - including report of prior year utilization
 - > Capacity planning - including projection of business volumes
 - > IT (S/W, H/W & N/W) Assets, Licenses & maintenance contracts
 - > Insurance
 - > Disposal - Equipment, Media, etc.
11. Entity Specific Software
12. Any other Item
 - > Electronic Waste Disposal
 - > Based upon previous Audit report as well as any other specific information given by SEBI

Audit Report Guidelines

The Audit report should have explicit coverage of each Major Area mentioned in the TOR, indicating any Nonconformity (NCs) or Observations (or lack of it). For each section - auditors should also provide qualitative input about ways to improve the process, based upon the best practices observed. The report should also include tabulated data to show NCs / Observations for each Major Area in TOR. Fully detailed report should be submitted, along with an Executive Summary in tabulated form including following information:

Issue Log Column Heading	Description	Responsibility
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Major Area	Major area/relevant clause in Terms of Reference against which compliance is being audited	Auditor
Description of Finding/ Observation	Describe the findings in sufficient detail, referencing any accompanying evidence (e.g. procedure annual, interview notes, reports <i>etc.</i>)	Auditor
Reference	Reference to the section in detailed report – where full background information about the findings are available	Auditor
Process/ Unit	Process or unit where the audit is conducted and the finding pertains to	Auditor
Category of Findings	Major/Minor Nonconformity, Observation, Suggestion <i>etc.</i>	Auditor
Audited By	Which Auditor covered the findings	Auditor
Root Cause Analysis	A detailed analysis on the cause of the nonconformity	Auditee
Remediation	The action (to be) taken to correct the nonconformity	Auditee
Target Completion Date for Remedial Action	The date by which remedial action must be/will be completed	Auditor/ Auditee
Status	Status of finding on reporting date (open/close)	Auditor/ Auditee
Verified By	Auditing personnel (upon verification that finding can be closed)	Auditor
Closing Date	Date when finding is verified and can be closed	Auditor



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The Executive Summary should also include an overall comment from the Auditors to indicate if a follow-on audit is required and the time lines of respective corrective action for non conformities. Further, along with the audit report, the Stock Exchange / Depository shall also submit a declaration from the MD / CEO certifying the integrity and security of IT Systems.

4.21 *Exceptional Observation Reporting format for System Audit Observation*¹⁰⁷

In this context, it has been decided that Stock Exchanges, Clearing Corporations and Depositories (MIIs) shall:

- Submit information with regards to exceptional major non-compliances (NCs) / minor NCs observed in the system audit as per **Annexure – A**.
- Categorically highlight those observations /NCs/ Suggestions pointed out in the System Audit (Current and Previous) which are not yet complied with.

The aforesaid information is to be duly certified by the Compliance Office, for the previous/ last and current system audits conducted. Information as sought in Annexure – A should also be provided for all future System Audits conducted along with the System Audit report submitted to SEBI.

Annexure – A

Exceptional Observation Reporting Format

Note: MIIs are expected to submit following information with regards to exceptional major/minor NCs observed in the System Audit. MIIs should also categorically highlight those observation/NCs/ Suggestions pointed out in the System Audit (Current and Previous) which are not yet complied with.

I. For Preliminary Audit

Audit Period	Observation	Description of Findings	Department	Status/Nature of Findings	Risk Rating of Findings as per	Audit TOR Clause	Audited By	Root Cause Analysis	Impact Analysis	Corrective Action	Deadline for the Corrective	Management responses in case of acceptance	Whether similar observation was
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¹⁰⁷ Reference no. SEBI letter OW/00000/04961/2017/1 dated May 11, 2017



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		g		ngs	Auditor			ysis		Propo sed by Audit or	Action	of associate Risks	observ in any the previo 3 audit

Description of relevant table heads

- 1. Audit Period** - This indicated the period of audit
- 2. Description of Finding/ Observation** - Description of findings in sufficient details, referencing any accompanying evidence.
- 3. Status/ Nature of Findings** - The category can be specified for example:
 - Non-Compliant (Major/ minor)
 - Work in progress
 - Observation
 - Suggestion
- 4. Risk Rating of Findings** - A rating has to be given for each of the observations based on their impact and severity to reflect the risk exposure, as well as suggested priority for action.

Rating	Description
HIGH	Weakness in control those represent exposure to the organization or risks that could lead to instances of noncompliance with the requirement of TORs. These risks need to be addressed with utmost priority.
MEDIUM	Potential weakness in controls, which could develop into an exposure or issues that represent areas of concern and may impact internal controls. These should be addressed reasonably promptly.
LOW	Potential weakness in controls, which in combination with other weakness can develop into an exposure. Suggested improvements for situations not immediately/directly affecting controls.

- 5. Audit TOR Clause** -The TOR clause corresponding to this observation.



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6. **Root cause Analysis** - A detailed analysis on the cause of the non - conformity
7. **Impact Analysis** - An analysis of the likely impact on the operations / activity of the organization
8. **Corrective Action** - The action taken to correct the non-conformity.

II. For Follow on/ Follow up System Audit

Preliminary Audit Date	Preliminary Audit Period	Preliminary Observation Number	Preliminary Status	Preliminary Corrective Action as proposed by Auditor	Current Findings	Current Status	Revised Corrective Action, if any	Deadline for the Revised Corrective Action	Reason for delay in implementation/ Compliance

Description of relevant table heads

1. **Preliminary Status** - The original finding as per the preliminary System Audit Report
2. **Preliminary Corrective Action** - The original corrective action as prescribed in the preliminary System Audit Report
3. **Current Findings** - The current finding w.r.t. the issue.
4. **Current Status** - Current status of the issue viz compliant, non-compliant, Work In Progress (WIP)
5. **Revised Corrective Action** - The revised corrective action prescribed w.r.t. the non-compliant/WIP issues

4.22 *Guidelines for Business Continuity Plan (BCP) and Disaster Recovery (DR)* ^{108 and 109}

¹⁰⁸ Circular No. CIR/MRD/DMS/12/2012 dated April 13, 2012 and clarification issued vide Circular No. CIR/MRD/ DMS/17/2012 dated June 22, 2012

¹⁰⁹ Reference Circular SEBI/HO/MRD/DMS1/CIR/P/2019/43 dated March 26, 2019 - extant framework re-examined and modified



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- i. The stock exchanges, clearing corporations and depositories (collectively referred as Market Infrastructure Institutions –MIIs) should have in place BCP and DRS so as to maintain data and transaction integrity.
- ii. Apart from DRS, stock exchanges and clearing corporations should also have a Near Site (NS) to ensure zero data loss whereas, the depositories should also ensure zero data loss by adopting a suitable mechanism.
- iii. The DRS should preferably be set up in different seismic zones and in case due to certain reasons such as operational constraints, change of seismic zones, etc., minimum distance of 500 kilometer shall be ensured between PDC and DRS so that both DRS and PDC are not affected by the same disaster
- iv. The manpower deployed at DRS / NS should have similar expertise as available at PDC in terms of knowledge / awareness of various technological and procedural systems and processes relating to all operations such that DRS / NS can function at short notice, independently. MIIs should have sufficient number of trained staff at their DRS so as to have the capability of running live operations from DRS without involving staff of the primary site.
- v. Configuration of DRS / NS with PDC
 - a) Hardware, system software, application environment, network and security devices and associated application environments of DRS / NS and PDC should have one to one correspondence between them.
 - b) MIIs should endeavor to develop systems that do not require configuration changes at the end of trading members/ clearing members/ depository participants for switchover from the PDC to DRS. Further, MIIs should test such switchover functionality by conducting unannounced 2 day live trading session from its DRS. This would help to gauge the state of readiness of various other processes and procedure relating to business continuity and disaster recovery that may not get tested in a planned exercise.
 - c) MIIs should have Recovery Time Objective (RTO) and Recovery Point Objective (RPO) not more than 4 hours and 30 minutes, respectively.
 - d) The time taken to define/ establish/ declare a disaster should not be



more than 2 hours and the total RTO including the time taken to declare an incident as disaster should not be more than 4 hours. Further, RTO shall be calculated from the occurrence of disaster and not from the time an incident is declared a disaster.

- e) Solution architecture of PDC and DRS / NS should ensure high availability, fault tolerance, no single point of failure, zero data loss, and data and transaction integrity.
- f) Any updates made at the PDC should be reflected at DRS / NS immediately (before end of day) with head room flexibility without compromising any of the performance metrics.
- g) Replication architecture, bandwidth and load consideration between the DRS / NS and PDC should be within stipulated RTO and ensure high availability, right sizing, and no single point of failure.
- h) Replication between PDC and NS should be synchronous to ensure zero data loss. Whereas the one between PDC and DR and between NS and DR may be asynchronous.
- i) Adequate resources (with appropriate training and experience) should be available at all times to handle operations on a regular basis as well as during disasters.

vi. DR Drills / Testing

- a) DR drills should be conducted on quarterly basis. In case of exchanges, these drills should be closer to real life scenario (trading days) with minimal notice to DR staff involved.
- b) During the drills, the staff based at PDC should not be involved in supporting operations in any manner.
- c) The drill should include running all operations from DRS for at least 1 full trading day.
- d) Before DR drills, the timing diagrams clearly identifying resources at both ends (DRS as well as PDC) should be in place.
- e) The results and observations of these drills should be documented and placed before the Governing Board of Stock Exchange / Depositories. Subsequently, the same along with the comments of the Governing Board should be forwarded to SEBI within a month of the DR drill.



- f) The system auditor while covering the BCP - DR as a part of mandated annual system audit should check the preparedness of the MII to shift its operations from PDC to DRS unannounced and should also comment on documented results and observations of DR drills.
- g) Live' trading sessions from DR site shall be scheduled for at least two consecutive days in every six months. Such live trading sessions from the DRS shall be organized on normal working days (i.e. not on weekends / trading holidays). The stock exchange/ clearing corporation shall ensure that staff members working at DRS have the abilities and skills to run live trading session independent of the PDC staff.
- h) Stock exchanges and clearing corporations shall include a scenario of intraday shifting from PDC to DR during the mock trading sessions in order to demonstrate its preparedness to meet RTO/RPO as stipulated above.
- i) MII should undertake and document Root Cause Analysis (RCA) of their technical/ system related problems in order to identify the causes and to prevent reoccurrence of similar problems.

vii. BCP - DR Policy Document

- a) Stock exchanges, clearing corporations and depositories, depending upon their line of business shall decide the definition of 'Disaster' which requires them to move from the PDC to DRS and include the same in the BCP-DR Policy. The above policy shall be approved by the respective Governing Boards of MIIs.
- b) The BCP - DR policy of stock exchanges and depositories should be well documented covering all areas as mentioned above including disaster escalation hierarchy.
- c) The stock exchanges should specifically address their preparedness in terms of proper system and infrastructure in case disaster strikes during business hours.
- d) Depositories should also demonstrate their preparedness to handle any issue which may arise due to trading halts in stock exchanges
- e) The policy document and subsequent changes / additions / deletions



should be approved by Governing Board of the Stock Exchange / Depositories and thereafter communicated to SEBI.

- f) In case a MII desires to lease its premise at the DRS to other entities including to its subsidiaries or entities in which it has stake, the MII should ensure that such arrangements do not compromise confidentiality, integrity, availability, targeted performance and service levels of the MII's systems at the DRS. The right of first use of all the resources at DRS including network resources should be with the MII. Further, MII should deploy necessary access controls to restrict access (including physical access) of such entities to its critical systems and networks.
- viii. Considering the above, stock exchanges and depositories are advised to submit their BCP - DR policy to SEBI within 3 months from the date of this circular. Further, they should also ensure that point 1 (vi) (f) mentioned above is also included in scope of system audit.

4.23 *(Information Technology) IT Governance For Depositories¹¹⁰*

- i. SEBI constituted the Depository System Review Committee (DSRC) to undertake a comprehensive review of the Indian depository system. Based on the recommendations of DSRC, following guidelines are issued to strengthen the information Technology (IT) governance framework of depositories.
- ii. Depositories shall formulate an *IT strategy committee* at the Board level of depository to provide insight and advice to the Board in various areas that may include:
 - a. Developments in IT from a business perspective.
 - b. The alignment of IT with the business direction.
 - c. The availability of IT resources to meet strategic objectives.
 - d. Competitive aspects of IT Investments.
 - e. Alignment of the IT architecture to the organization needs and its approval.
 - f. Setting priorities and milestones.

¹¹⁰ Reference: MRD/DMS/03/2014 dated January 21, 2014



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- iii. Depositories shall formulate an executive level *IT Steering Committee* to assist the IT Strategy Committee in Implementation of IT strategy. The IT steering committee shall comprise of representatives from IT, Human Resources (HR), Legal and various business functions as felt appropriate.
- iv. The Depositories shall formulate an IT strategy document and an Information Security policy which should be approved by the Board and reviewed annually.
- v. The Depositories shall create an Office of Information Security and designate a senior official as Chief Information Security Officer (CISO) whose work would be to assess, identify and reduce information technology (IT) risks, respond to incidents, establish appropriate standards and controls, and direct the establishment and implementation of policies and procedures.
- vi. SEBI has laid down Guidelines for Business Continuity Plan (BCP) and Disaster Recovery (DR) for stock exchange and depositories vide circular CIR/MRD/DMS/12/2012 dated April 13, 2012 and CIR/MRD/DMS//17/2012 dated June 22, 2012. In Addition to the requirements of the aforementioned circulars, depositories shall designate a senior official as the head of BCP function.

4.24 *Guidelines for inspection of Depository Participants (DPs) by Depositories¹¹¹*

- i. Depository System Review Committee (DSRC) was constituted by SEBI to undertake a comprehensive review of the depository system of Indian Securities market.
- ii. As a first measure, DSRC has reviewed framework adopted by the depositories with regard to the inspection of depository participants (DPs). Considering the recommendations of the committee, it has been decided that depositories shall ensure the following while inspecting their DPs.

¹¹¹ Reference Circular SEBI/MRD/DMS/05/2014 dated February 07, 2014



Inspection Areas and Sample Size

- iii. For conducting inspection of DPs, depositories shall inspect the areas as mentioned in Annexure - I. During inspection, depositories shall cover implementation of circulars / guidelines issued by SEBI and guidelines / operating instructions / directions by depositories in respect of these areas. In addition, Depositories may include such other areas as felt appropriate.
- iv. For the purpose of determining the size of sample, depositories shall be guided by 'Adaptive Sample Size determination methodology' as mentioned at Annexure - II.

Categorization / Risk Rating of DPs

- v. For the purpose of computing total risk score of DPs, depositories shall be guided by “DP Rating Model / Categorization” as mentioned at Annexure - III.
- vi. Depositories should periodically undertake risk - impact analysis for each of the inspection areas, assign appropriate risk weightage, calculate risk scores for each DPs in the lines mentioned below.
 - a. Risk Weightage: Depositories shall assign risk weights for each of inspection areas after taking into consideration following factors:
 - 1. Operational risks in each of the inspection areas.
 - 2. Category of DPs (such as stock broker DPs, bank DP, etc)
 - 3. Size of Operation
 - 4. Repetitive violations
 - 5. IT Security and BCP
 - 6. Complaints received and redressed
 - b. Quantitative Score Calculation: Depositories shall arrive at a Quantitative Risk Score for each inspection area by multiplying percentage of non-compliance to the sample size with the corresponding assigned risk weight.



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- c. Qualitative Score Calculation: Depositories shall arrive at a Qualitative Risk Score for each qualitative area by multiplying the score assigned by inspection team to DP with corresponding assigned risk weight.
 - d. Total DP Risk Score shall be the summation of quantitative and qualitative scores assigned to the DP.
 - e. Depositories shall suitably normalize the scales of the qualitative and quantitative scores in arriving at the Total DP risk score.
- vii. Depositories shall categorize their DPs as 'High Risk', 'Medium to High Risk', 'Medium Risk', and 'Low Risk' DPs based on the percentile of risk score.

DP Risk Rating / Categorization	Percentile of Risk Score
High	≥ 80
Medium-High	46-79
Medium	21-45
Low	≤ 20

- viii. After arriving at the risk rating / categorization as mentioned above, for subsequent inspections, depositories shall use the DP risk rating/ categorization to decide on the frequency of inspection of DPs
- ix. Apart from the above, depositories may undertake specific purpose inspections for DPs which score high in the specific inspection areas as mentioned at Annexure - I.
- x. Depositories shall jointly inspect DPs which are registered with both depositories to have better control over DPs, avoid duplicity of manpower, time and cost and also to reduce the possibility of regulatory arbitrage, if any. Depositories shall share the risk rating / categorization of common DPs with each other. For the purpose of determining sample



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size and frequency of the joint inspection of such common DPs, the higher risk categorization assigned by any of the Depository shall prevail.

Annexure -I
List of Inspection Areas

1. Depositories shall inspect the areas mentioned at para 2 below during inspection of DPs with regards to any
 - 1.1. Circulars / Guidelines issued by SEBI on the areas mentioned below.
 - 1.2. Guidelines / Operating Instructions / Directions from depositories on the areas mentioned below.
2. In case there are built in system checks at the depository that ensure compliance of any of the inspection areas / sub -areas with regard to point 1.1 and 1.2 above, the depository may decide on the including the same during the inspection of DPs

Inspection Areas

A. Account Opening / KYC Documents

- A.1. Account Opening forms



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- A.2. KYC Documents
 - A.2.1. PAN Verification
 - A.2.2. In-person verification
 - A.2.3. Forwarding of Documents to KYC Registration Agency (KRA)
 - A.3. Proof of Identity (POI)
 - A.4. Proof of Address
 - A.5. Correspondence Address
 - A.6. Authorized Signatories
 - A.7. Completeness / Validation of data entered into DPM with data provided in the Account Opening forms
 - A.8. Minor BO / Joint / HUF accounts
 - A.9. Account Activation
 - A.10. PMS Accounts
 - A.11. Nomination
 - A.12. Any other area as may be specified by the depository
- B. Basic Service Demat Account (BSDA)
- B.1. Procedures and Checks pertaining to BSDA
 - B.2. Any other area as may be specified by the depository
- C. Client Data Modification (CDM)
- C.1. Procedure for CDM
 - C.2. Any other area as may be specified by the depository
- D. Demat / Remat / Conversion / Reconversion request
- D.1. Procedure for receiving/processing requests pertaining to Demat / Remat / Conversion / Reconversion request
 - D.2. Procedure for forwarding requests pertaining to Demat / Remat / Conversion / Reconversion request to RTA / issuer



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- D.3. Arrangement for Safekeeping of Security / Share Certificates
- D.4. Tracking of demat requests
- D.5. Rejection of above requests attributable to DPs
- D.6. Checks pertaining to processing of Demat / Remat / Conversion / Reconversion request
- D.7. Any other area as may be specified by the depository

E. Delivery Instruction Slip (DIS)

- E.1. Issuance of DIS
- E.2. Inventory Control of DIS
- E.3. First Instruction Slip Booklet
- E.4. Requisition Slip
- E.5. Procedure for Loose DIS
- E.6. Depository specific areas
- E.7. Verification of DIS
- E.8. Procedure for accepting DIS
- E.9. Time Stamping and related Areas
- E.10. Accepting DIS by Fax
- E.11. Accepting DIS in form of Annexure
- E.12. Completeness of DIS
- E.13. Accepting DIS in electronic form
- E.14. Procedure for Verification of DIS
- E.15. Signature Verification
- E.16. Corrections / Cancellations to DIS
- E.17. Blocking of used / executed / lost / misplaced / Stolen DIS
- E.18. Procedure for processing of DIS
- E.19. Any other area as may be specified by the depository



F. Transaction

- F.1. Checks pertaining to setting up / processing of transactions
- F.2. Future dated transactions
- F.3. Transfer of all ISINs of BO account having 5 or more ISINs
- F.4. Any other area as may be specified by the depository

G. Transaction Statement (TS)

- G.1. Validation of TS
- G.2. Maintenance of records of TS
- G.3. Issuance of TS to BOs
- G.4. Any other area as may be specified by the depository

H. Compliance under Prevention of Money Laundering Act, 2002 (PMLA)

- H.1. Compliance with PMLA Act, 2002 and SEBI Guidelines on areas such as Customer due diligence, suspicious transaction monitoring , reporting and record keeping
- H.2. Appointment of Principal officer as required under PMLA Act,2002
- H.3. Mechanism to deal with alerts provided by Depository
- H.4. Suspicious Transactions reports to FIU
- H.5. Any other area as may be specified by the depository

I. Maintenance of record and documents

- I.1. Information regarding place(s) of record keeping
- I.2. Outsourcing of record keeping activities
- I.3. Any other area as may be specified by the depository

J. Service Centre Opening and closing/ modification of service centers

- J.1. Procedure for Opening /Closure of Service centers
- J.2. Details of Service centre on Depository website



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- J.3. Qualified persons at service centers
- J.4. Any other area as may be specified by the depository

K. Information Technology areas

- K.1. Hardware, Software and Network requirements / configurations
- K.2. Logical and Physical restrictions / safeguards
- K.3. IT Security
- K.4. Procedure for alteration of parameters / configurations
- K.5. Redundancy
- K.6. Any other area as may be specified by the depository

L. Power of Attorney (POA)

- L.1. Documents executed
- L.2. Maintenance of POA Register
- L.3. Clauses of POA
- L.4. Registration of BO for SMS Alert facility for POA
- L.5. Any other area as may be specified by the depository

M. Inter Depository Transfers (IDT)

- M.1. Processing of IDT
- M.2. Checks pertaining to IDT
- M.3. Any other area as may be specified by the depository

N. Account Transfer

- N.1. Procedure followed for account transfer
- N.2. Checks pertaining to Account transfer
- N.3. Waiver claimed for inter depository transfer
- N.4. Any other area as may be specified by the depository



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O. Transmission

- O.1. Procedure followed for transmission
- O.2. Checks pertaining to Transmission
- O.3. Waiver Claimed for inter depository transfer
- O.4. Any other area as may be specified by the depository

P. Pledge / Unpledge

- P.1. Procedure followed for Pledge / Unpledge
- P.2. Checks pertaining to Pledge / Unpledge
- P.3. Any other area as may be specified by the depository

Q. Freeze / Unfreeze

- Q.1. Freeze facility
- Q.2. Procedure followed for Freeze
- Q.3. Checks pertaining to freeze
- Q.4. Any other area as may be specified by the depository

R. Miscellaneous areas

- R.1. Investor Grievance
- R.2. Forms for various activities
- R.3. Execution of any supplementary agreement/ Letter of Confirmation
- R.4. Submission of Internal Audit / Concurrent Audit / Net worth Certificate
- R.5. Submission of Annual Financial Statement
- R.6. Outsourcing of Activities
- R.7. Closure / transfer of Balances
- R.8. Submission of Information sought by Depositories specifically through Circulars / Letters.



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- R.9. Half Yearly Compliance
- R.10. Any other area as may be specified by the depository
- S. Status of compliance for deviations / observations noted in last inspection
- T. Complaints
 - T.1. Account Opening
 - T.2. Demat / Remat
 - T.3. Transaction Statement
 - T.4. Improper Service
 - T.5. Charges
 - T.6. Delivery Instruction Related (DIS)
 - T.7. Closure
 - T.8. Manipulation / Unauthorized Action
 - T.9. Monthly report for client complaints
 - T.10. Other Complaints

Annexure -II

Adaptive Sample Size Determination methodology



1. Sample Size for inspection area of 'Account Opening'

- The sample selection for account opening shall cover all categories of clients such as individuals, HUF, Corporate, FIIs etc.
- Base sample size: 5% of Account Opening Forms (AOFs) or 150 AOFs whichever is higher, with a maximum cap of 1000 accounts.
- Final Sample Size: The final sample size shall also be dependent on past rating / categorization of DP. The following multipliers shall be used to determine the final sample size for the current inspection. In case the total number of instances / cases is less than the final sample size, then 100% of the samples shall be verified.

DP Rating / Categorization	Multiplier
High risk	3
Medium High risk	2
Medium risk	1.5
Low risk	1

- The selected sample shall maintain the proportion of new accounts opened in each category, except for Account Opening Forms (AOF) relating to FIIs where it shall be checked on a 100% basis.

2. Sample Size for inspection area relating to DIS

- Base sample size: 10% of total DIS processed or 200 processed DIS whichever is higher, with a maximum cap of 1000 DIS.
- Final Sample Size: The sample size shall also be dependent on rating / categorization of DP. The following multipliers shall be used to determine the final sample size for the current inspection. In case the total number of instances / cases is less than the final sample size, then 100% of the samples shall be verified.

DP Rating / Categorization	Multiplier
High risk	3
Medium High risk	2
Medium risk	1.5



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Low risk	1
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- Out of total intra depository instructions to be verified, the percentage of on and off market instructions would be in the ratio of 1/3 and 2/3.
- DIS issuance sample size shall be 5% of the total samples verified for DIS.

3. Sample Sizes for inspection areas of 'Demat / Remat request' and 'Pledge / Unpledge'

- 5% of Demat / Remat request processed or 100 requests whichever is higher with a maximum cap of 500 such requests.
- 5% of Pledge / Unpledge request processed or 100 requests whichever is higher with a maximum cap of 500 such requests.

4. Sample Size for inspection area of 'Client Data Modification', 'Miscellaneous areas' and 'Other depository specific requirements'

- Base Sample Size
 - Address change = 50
 - Samples from Urban, Semi Urban and Rural Areas shall be equally represented if available.
 - Nomination Change = 25
 - Signature change = 100
 - Addition / Deletion / Modification of POA = 100
 - Freeze / Unfreeze = 50
 - Bank Details Change = 100
 - PAN modification = 100
 - Account closure initiated by clients = 25
 - Closure initiated by DPs = 25
 - Demat rejection = 30
 - Transactions = 25
 - Change in e-mail Id = 25



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- Change in mobile number = 25
- Change in SMS flag = 50
- Change in standing instruction flag = 50
- Transmission = 50% of total transmission cases
- Previous compliance = 100% of total samples
- Final sample size shall be arrived at after multiplying with the respective multiplier corresponding to the DP Risk rating / categorization as given below. In case the total number of instances / cases is less than the final sample size, then 100% of the samples shall be verified.

DP Rating/ Categorisation	Multiplier
High risk	3
Medium High risk	2
Medium risk	1.5
Low risk	1

5. Other Aspects

- A uniform Base sample size of 100 shall be adopted in case of all other activities. In case the total number of samples is less than 100, then 100% of the samples shall be verified.



Annexure-III

DP Rating/ Categorization Model

- I. **Quantitative Score Calculation:** Specific weights shall be assigned to each area as decided by each depository. The Total Quantitative Score shall be the summation of all individual inspection scores.

Table: Indicative Table for calculation of Quantitative Score

Sr No	Inspection Areas	Weight (A)	B = No of Instances divided by Sample size	Inspection Score IS = A*B
A.	Inspection Area 1			
A.1.	Inspection Sub Area A 1			
A.2.	Inspection Sub Area 2			
	Total Score for <i>Inspection Area 1</i>			
B.	Inspection Area 2			
B.1.	Inspection Sub Area B 1			
B.2.	Inspection Sub Area B 2			
B.3.	Inspection Sub Area B 3			
	Total Score for <i>Inspection Area 2</i>			



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Depositories shall include all inspection areas and sub areas, as per Annexure -I (List of Inspection Areas) of this circular, in the above model to arrive at the Quantitative Score for a DP.

Table: Indicative Table for calculation of Quantitative Score for Complaints Received

Sr No	Type and Nature of Complaint	Weight (A)	(Number of Complaints redressed) / Number of Complaints received)	Inspection Score IS = A*B
T	Complaints			
T.1	Complaint Sub Area 1			
T.2	Complaint Sub Area 2			
	Total Score for <i>Complaints</i>			

Quantitative Score = Σ (Scores of Inspection Areas including Total score for Complaints)

- II. Qualitative Score Calculation:** Specific weights shall be assigned to each area as decided by depository. The Total Qualitative Score shall be the summation of all area scores.

Sr. No	Qualitative Factors	Weight (A)	Point on the scale of 1 to 10. [10 being the Worst] (B)	Area score = (A) * (B)
1	Ownership and Governance			
2	IT security and Business Continuity			
3	Regulatory / procedural Compliance			
4	Automation of systems and processes for critical activities			
5	Quality of Management			



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6	Financial Status / profitability of DPs			
7	Pending enquires / Penalties imposed by SEBI / Depositories on DP operations			
8	Complaints redressal			
9	Adverse findings of other activities (eg. Broking / custodian / banks etc)			
Total Qualitative Score = Σ (Area Scores)				

Following indicative factors shall be taken into account for arriving at above mentioned qualitative score:

(a) Ownership and Governance

1. Constitution of Board of DP - Number of promoter directors, Independent Directors etc.
2. Role of non-executive directors / Independent directors.

(b) Quality of Management

1. Experience, Fit and Proper and Qualification of Key Personnel.
2. Existence of Succession planning for top management especially in control functions.
3. Chinese walls between the activities in terms of manpower, resources etc.
4. Training and development of employees.
5. Adequacy of staff strength.
6. Compliance level of previous inspection observations/ directions of regulatory bodies

(c) IT security and Business Continuity

1. High Availability.
2. Appropriate Interconnected Architecture.
3. Appropriate Recovery Time Objective (RTO) and Recovery Point Objective (RPO) and near "Zero Data Loss".



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4. Periodic drills that simulate the real life disaster scenarios on a regular basis.
5. Technological glitches in the past period and remedies taken.
6. Information security.
7. Upgradation of technology

(d) **Financial Status / profitability of DPs**

1. The net-worth of the DPs (whether reducing or increasing from previous years)
2. Net Profits of DPs operations.

(e) **Complaints redressal**

1. Complaint redressal system
2. Percentage of complaints pending and resolved.

(f) **Other adverse findings**

1. Actions taken by Stock exchange and SEBI / RBI with respect to other activities
2. Actions taken by other depository.

III. Total Score = Qualitative Score + Quantitative Score



4.25 *Activity of Demat of warehouse receipts¹¹²*

The aforesaid activity is not in compliance with Regulation 42 of SEBI (D&P) Regulations, 2018 and therefore depositories cannot carry out this activity. Depositories are therefore advised to take suitable steps in this regard, either to hive-off or to discontinue the activity.

4.26 *Voting rights in respect of securities held in pool account¹¹³*

It was informed that the corporate benefits availed by the clearing member, clearing corporation and intermediaries shall be held in trust on behalf of beneficiary owners. Therefore, the clearing member, clearing corporation as well as the intermediaries cannot have voting rights in respect of securities held in the pool account.

¹¹² Reference: MRD/DP/SG-OW/202/2012 and MRD/DP/SG-OW/203/2012 dated January 4, 2012

¹¹³ Reference: SMDRP/NSDL/26563/2001 dated April 10, 2001



4.27 *Risk Management Policy at the Depositories¹¹⁴*

- i. The depositories are advised to establish a clear, comprehensive and well documented risk management framework which shall include the following:
 - a) an integrated and comprehensive view of risks to the depository including those emanating from participants, participants' clients and third parties to whom activities are outsourced etc.;
 - b) list out all relevant risks, including technological, legal, operational, custody and general business risks and the ways and means to address the same;
 - c) the systems, policies and procedures to identify, assess, monitor and manage the risks that arise in or are borne by the depository ;
 - d) the depository's risk-tolerance policy;
 - e) responsibilities and accountability for risk decisions and decision making process in crises and emergencies.
- ii. The Depositories shall put in place mechanism to implement the Risk Management Framework through a Risk Management Committee which shall be headed by a Public Interest Director¹¹⁵. The responsibilities of the said Committee shall include the following:
 - a) It shall meet periodically in order to continuously identify, evaluate and assess applicable risks in depository system through various sources such as investors complaints, inspections, system audit etc.;
 - b) It shall suggest measures to mitigate risk wherever applicable;
 - c) It shall monitor and assess the adequacy and effectiveness of the risk management framework and the system of internal control;
 - d) It shall review and update the risk management framework periodically.

¹¹⁴ Reference: CIR/MRD/DP/1/2015 dated January 12, 2015

¹¹⁵ Reference: SEBI/HO/MRD/DOP2DSA2/CIR/P/2019/13 dated January 10, 2019



The Board of the depository shall approve the Risk Management Framework and the Chief Risk Officer shall have access to the Board. The CRO shall be responsible, accountable and answerable to the board on overall risk management issues.

4.28 *Outsourcing by Depositories*¹¹⁶

Based on recommendations by DSRC, the depositories are advised to ensure the following:

- i. Depositories shall formulate and document an outsourcing policy duly approved by their Board based on the guidelines given below and the principles outlined in the SEBI circular CIR/MIRSD/24/2011 dated December 15, 2011.

Core activities of Depositories

- ii. Core and critical activities of depositories shall not be outsourced. The core activities of the depositories shall include but not limited to the following:
 - a) Processing of the applications for admission of Depository Participants (DPs), Issuers and Registrar & Transfer Agents (RTAs).
 - b) Facilitating Issuers/RTAs to execute Corporate Actions.
 - c) Allotting ISINs for securities.
 - d) Maintenance and safekeeping of Beneficial Owner's data.
 - e) Execution of settlement and other incidental activities for pay-in/pay-out of securities.
 - f) Execution of transfer of securities and other transactions like pledge, freeze, etc.
 - g) Provision of internet based facilities for access to demat accounts and submitting delivery instructions.
 - h) Ensuring continuous connectivity to DPs, RTAs, Clearing Corporations and other Depository.
 - i) Monitoring and redressal of investor grievances.
 - j) Inspection of DPs and RTAs.

¹¹⁶ Reference: CIR/MRD/DP/19/2015 dated December 09, 2015



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- k) Surveillance Functions.
 - l) Compliance Functions.
- iii. Core IT (Information Technology) support infrastructure / activities for running the core activities of depositories shall not be outsourced to the extent possible.

Due Diligence

- iv. The depositories shall conduct appropriate due diligence in selecting the third party to whom activity is proposed to be outsourced and ensure that only reputed entities having proven high delivery standards are selected.

Risk Management & Monitoring

- v. Depositories shall ensure that outsourced activities are further outsourced downstream only with the prior consent of the depository and with appropriate safeguards including proper legal documentation/ agreement.
- vi. Depositories shall ensure that risk impact analysis is undertaken before outsourcing any activity and appropriate risk mitigation measures like back up/ restoration system are in place.
- vii. An effective monitoring of the entities selected for outsourcing shall be done to ensure that there is check on the activities of outsourced entity. Depositories shall strive to automate their processes and workflows to the extent possible which shall enable real time monitoring of outsourced activities.

Audit

- viii. The outsourcing policy document shall act as a reference for audit of the outsourced activities. Audit of implementation of risk assessment and mitigation measures listed in the outsourcing policy document and outsourcing agreement/ service level agreements pertaining to IT systems shall be part of System Audit of Depositories.



4.29 *Cyber Security and Cyber Resilience framework of Depositories¹¹⁷*

- i. SEBI as a member of IOSCO has adopted the Principles for Financial Market Infrastructures (PFMIs) laid down by CPMI-IOSCO and has issued guidance for implementation of the principles in the securities market.
- ii. Principle 17 of PFMI that relates to management and mitigation of 'Operational risk' requires that systemically important market infrastructures institutions *"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."*
- iii. Depositories (hereafter referred as *Market Infrastructure Institutions* or *MIIs*) are systemically important market infrastructure institutions. As part of the operational risk management, these MIIs need to have robust cyber security framework to provide essential facilities and perform systemically critical functions relating to trading, clearing and settlement in securities market.
- iv. In view of the above, SEBI along with the Technical Advisory Committee (TAC) engaged in detailed discussions with MIIs to develop necessary guidance in the area of cyber security and cyber resilience.
- v. Based on the consultations and recommendations of Technical Advisory Committee TAC, it has been decided to lay down the framework placed at Annexure below that MIIs would be required to comply with regard to cyber security and cyber resilience.

¹¹⁷ Reference: Circular CIR/MRD/DP/13/2015 dated July 06, 2015



Annexure

1. Cyber attacks and threats attempt to compromise the Confidentiality, Integrity and Availability (CIA) of the computer systems, networks and databases.¹¹⁸ Cyber security framework include measures, tools and processes that are intended to prevent cyber attacks and improve cyber resilience. Cyber Resilience is an organisation's ability to prepare and respond to a cyber attack and to continue operation during, and recover from, a cyber attack.

Governance

2. As part of the operational risk management framework to manage risk to systems, networks and databases from cyber attacks and threats, MII should formulate a comprehensive cyber security and cyber resilience policy document encompassing the framework mentioned hereunder. The policy document should be approved by the Board, and in case of deviations from the suggested framework, reasons for such deviations should also be provided in the policy document. The policy document should be reviewed by the MII's Board atleast annually with the view to strengthen and improve its cyber security and cyber resilience framework.

3. The cyber security and cyber resilience policy should include the following process to identify, assess, and manage cyber security risk associated with processes, information, networks and systems.

- a. 'Identify' critical IT assets and risks associated with such assets,
- b. 'Protect' assets by deploying suitable controls, tools and measures,
- c. 'Detect' incidents, anomalies and attacks through appropriate monitoring tools / processes,
- d. 'Respond' by taking immediate steps after identification of the incident, anomaly or attack,

¹¹⁸ Confidentiality refers to limiting access of systems and information to authorized users, Integrity is the assurance that the information is reliable and accurate, and Availability refers to guarantee of reliable access to the systems and information by authorized users



- e. 'Recover' from incident through incident management, disaster recovery and business continuity framework.
4. The Cyber security policy should encompass the principles prescribed by National Critical Information Infrastructure Protection Centre (NCIIPC) of National Technical Research Organisation (NTRO), Government of India in the report titled 'Guidelines for Protection of National Critical Information Infrastructure' and subsequent revisions, if any, from time to time.
5. MII should also incorporate best practices from standards such as ISO 27001, ISO 27002, COBIT 5, etc., or their subsequent revisions, if any, from time to time.
6. MII should designate a senior official as Chief Information Security Officer (CISO) whose function would be to assess, identify and reduce cyber security risks, respond to incidents, establish appropriate standards and controls, and direct the establishment and implementation of processes and procedures as per the cyber security and resilience policy approved by the Board of the MII.
7. The Standing Committee on Technology¹¹⁹ of the stock exchanges, clearing corporations and the depositories should on a quarterly basis review the implementation of the cyber security and resilience policy approved by their Boards, and such review should include review of their current IT and cyber security and resilience capabilities, set goals for a target level of cyber resilience, and establish a plan to improve and strengthen cyber security and cyber resilience.
8. MII should establish a reporting procedure to facilitate communication of unusual activities and events to CISO or to the senior management in a timely manner.
9. The aforementioned committee and the senior management of the MII, including the CISO, should periodically review instances of cyber attacks, if any,

¹¹⁹Refer SEBI Circulars SMD/POLICY/Cir-2/98 dated January 14, 1998
SEBI/HO/MRD/DOP2DSA2/CIR/P/2019/13 dated January 10, 2019



domestically and globally, and take steps to strengthen cyber security and cyber resilience framework.

10. MII should define responsibilities of its employees, outsourced staff, and employees of vendors, members or participants and other entities, who may have access or use systems / networks of MII, towards ensuring the goal of cyber security.

Identify

11. MII should identify critical assets based on their sensitivity and criticality for business operations, services and data management. To this end, MII should maintain up-to-date inventory of its hardware and systems, software and information assets (internal and external), details of its network resources, connections to its network and data flows.

12. MII should accordingly identify cyber risks (threats and vulnerabilities) that it may face, alongwith the likelihood of such threats and impact on the business and thereby, deploy controls commensurate to the criticality.

13. MII should also encourage its third-party providers, such as service providers, stock brokers, depository participants, etc. to have similar standards of Information Security.

Protection

Access Controls

14. No person by virtue of rank or position should have any intrinsic right to access confidential data, applications, system resources or facilities.

15. Any access to MII's systems, applications, networks, databases, etc., should be for a defined purpose and for a defined period. MII should grant access to IT systems, applications, databases and networks on a *need-to-use* basis and based on the *principle of least privilege*. Such access should be for the period when the access is required and should be authorized using strong authentication mechanisms.



16. MII should implement strong password controls for users' access to systems, applications, networks and databases. Password controls should include a change of password upon first log-on, minimum password length and history, password complexity as well as maximum validity period. The user credential data should be stored using strong and latest hashing algorithms.
17. MII should ensure that records of user access are uniquely identified and logged for audit and review purposes. Such logs should be maintained and stored in encrypted form for a time period not less than two (2) years.
18. MII should deploy additional controls and security measures to supervise staff with elevated system access entitlements (such as admin or privileged users). Such controls and measures should inter-alia include restricting the number of privileged users, periodic review of privileged users' activities, disallow privileged users from accessing systems logs in which their activities are being captured, strong controls over remote access by privileged users, etc.
19. Account access lock policies after failure attempts should be implemented for all accounts.
20. Employees and outsourced staff such as employees of vendors or service providers, who may be given authorised access to the MII's critical systems, networks and other computer resources, should be subject to stringent supervision, monitoring and access restrictions.
21. Two-factor authentication at *log-in* should be implemented for all users that connect using online / internet facility.
22. MII should formulate an Internet access policy to monitor and regulate the use of internet and internet based services such as social media sites, cloud-based internet storage sites, etc.
23. Proper 'end of life' mechanism should be adopted to deactivate access privileges of users who are leaving the organization or who access privileges have been withdrawn.



Physical security

24. Physical access to the critical systems should be restricted to minimum. Physical access of outsourced staff / visitors should be properly supervised by ensuring at the minimum that outsourced staff / visitors are accompanied at all times by authorised employees.

25. Physical access to the critical systems should be revoked immediately if the same is no longer required.

26. MII should ensure that the perimeter of the critical equipments room are physically secured and monitored by employing physical, human and procedural controls such as the use of security guards, CCTVs, card access systems, mantraps, bollards, etc. where appropriate.

Network Security Management

27. MII should establish baseline standards to facilitate consistent application of security configurations to operating systems, databases, network devices and enterprise mobile devices within the IT environment. The MII should conduct regular enforcement checks to ensure that the baseline standards are applied uniformly.

28. MII should install network security devices, such as firewalls as well as intrusion detection and prevention systems, to protect its IT infrastructure from security exposures originating from internal and external sources.

29. Anti-virus software should be installed on servers and other computer systems. Updation of Anti-virus definition files and automatic anti-virus scanning should be done on a regular basis.

Security of Data

30. Data-in motion and Data-at-rest should be in encrypted form by using strong encryption methods such as Advanced Encryption Standard (AES), RSA, SHA-2, etc.



31. MII should implement measures to prevent unauthorised access or copying or transmission of data / information held in contractual or fiduciary capacity. It should be ensured that confidentiality of information is not compromised during the process of exchanging and transferring information with external parties.

32. The information security policy should also cover use of devices such as mobile phone, faxes, photocopiers, scanners, etc. that can be used for capturing and transmission of data.

33. MII should allow only authorized data storage devices through appropriate validation processes.

Hardening of Hardware and Software

34. Only a hardened and vetted hardware / software should be deployed by the MII. During the hardening process, MII should inter-alia ensure that default passwords are replaced with strong passwords and all unnecessary services are removed or disabled in equipments / software.

35. All open ports which are not in use or can potentially be used for exploitation of data should be blocked. Other open ports should be monitored and appropriate measures should be taken to secure the ports.

Application Security and Testing

36. MII should ensure that regression testing is undertaken before new or modified system is implemented. The scope of tests should cover business logic, security controls and system performance under various stress-load scenarios and recovery conditions.

Patch Management

37. MII should establish and ensure that the patch management procedures include the identification, categorization and prioritisation of security patches. An implementation timeframe for each category of security patches should be



established to implement security patches in a timely manner.

38. MII should perform rigorous testing of security patches before deployment into the production environment so as to ensure that the application of patches do not impact other systems.

Disposal of systems and storage devices

39. MII should frame suitable policy for disposals of the storage media and systems. The data / information on such devices and systems should be removed by using methods viz. wiping / cleaning / overwrite, degauss and physical destruction, as applicable.

Vulnerability Assessment and Penetration Testing (VAPT)

40. MII should regularly conduct vulnerability assessment to detect security vulnerabilities in the IT environment. MII should also carry out periodic penetration tests, atleast once in a year, in order to conduct an in-depth evaluation of the security posture of the system through simulations of actual attacks on its systems and networks.

41. Remedial actions should be immediately taken to address gaps that are identified during vulnerability assessment and penetration testing.

42. In addition, MII should perform vulnerability scanning and conduct penetration testing prior to the commissioning of a new system which offers internet accessibility and open network interfaces.

Monitoring and Detection

43. MII should establish appropriate security monitoring systems and processes to facilitate continuous monitoring of security events and timely detection of unauthorised or malicious activities, unauthorised changes, unauthorised access and unauthorised copying or transmission of data / information held in contractual or fiduciary capacity, by internal and external parties. The security logs of systems, applications and network devices should



also be monitored for anomalies.

44. Further, to ensure high resilience, high availability and timely detection of attacks on systems and networks, MII should implement suitable mechanism to monitor capacity utilization of its critical systems and networks.

45. Suitable alerts should be generated in the event of detection of unauthorized or abnormal system activities, transmission errors or unusual online transactions.

Response and Recovery

46. Alerts generated from monitoring and detection systems should be suitably investigated, including impact and forensic analysis of such alerts, in order to determine activities that are to be performed to prevent expansion of such incident of cyber attack or breach, mitigate its effect and eradicate the incident.

47. The response and recovery plan of the MII should aim at timely restoration of systems affected by incidents of cyber attacks or breaches. The recovery plan should be in line with the Recovery Time Objective (RTO) and Recovery Point Objective (RPO) specified by SEBI.

48. The response plan should define responsibilities and actions to be performed by its employees and support / outsourced staff in the event of cyber attacks or breach of cyber security mechanism.

49. Any incident of loss or destruction of data or systems should be thoroughly analyzed and lessons learned from such incidents should be incorporated to strengthen the security mechanism and improve recovery planning and processes.

50. MII should also conduct suitable periodic drills to test the adequacy and effectiveness of response and recovery plan.



Sharing of information

51. Quarterly reports containing information on cyber attacks and threats experienced by MII and measures taken to mitigate vulnerabilities, threats and attacks including information on bugs / vulnerabilities / threats that may be useful for other MIIs, should be submitted to SEBI.

52. Such details as are felt useful for sharing with other MIIs in masked and anonymous manner shall be shared using mechanism to be specified by SEBI from time to time.

Training

53. MII should conduct periodic training programs to enhance awareness level among the employees and outsourced staff, vendors, etc. on IT / Cyber security policy and standards. Special focus should be given to build awareness levels and skills of staff from non-technical disciplines.

54. The training program should be reviewed and updated to ensure that the contents of the program remain current and relevant.

Periodic Audit

55. The Terms of Reference for the System Audit of MII specified vide circular CIR/MRD/DMS/13/2011 dated November 29, 2011 shall be accordingly modified to include audit of implementation of the aforementioned areas.

Cyber Security Operation Center (C-SOC)¹²⁰

1. Recognizing the need for a robust Cyber Security and Cyber Resilience framework at Market Infrastructure Institutions (MIIs), i.e., Stock Exchanges, Clearing Corporations and Depositories, vide SEBI Circular CIR/MRD/DP/13/2015 dated July 06, 2015, a detailed regulatory framework on cyber security and cyber resilience was prescribed.

¹²⁰ Reference circular CIR/MRD/CSC/148/2018 dated December 07, 2018



2. With the view to further strengthening the aforesaid framework, particularly in respect of monitoring of cyber threats and cyber resiliency, the matter was discussed with SEBI's Technical Advisory Committee (TAC), SEBI's High Powered Committee on Cyber Security (HPSC-CS) and the MIIs.
3. Accordingly, it has been decided that MIIs shall have a Cyber Security Operation Center (C-SOC) that would be a 24x7x365 set-up manned by dedicated security analysts to identify, respond, recover and protect from cyber security incidents.
4. The C-SOC shall function in accordance with the framework specified in SEBI Circular CIR/MRD/DP/13/2015 dated July 06, 2015. Illustrative list of broad functions and objectives to be carried out by a C-SOC are mentioned hereunder:
 - 4.1. Prevention of cyber security incidents through proactive actions:
 - a) Continuous threat analysis,
 - b) Network and host scanning for vulnerabilities and breaches,
 - c) Countermeasure deployment coordination,
 - d) Deploy adequate and appropriate technology at the perimeter to prevent attacks originating from external environment and internal controls to manage insider threats. MIIs may implement necessary controls to achieve zero trust security model.
 - 4.2. Monitoring, detection, and analysis of potential intrusions / security incidents in real time and through historical trending on security-relevant data sources.
 - 4.3. Response to confirmed incidents, by coordinating resources and directing use of timely and appropriate countermeasures.
 - 4.4. Analysis of the intrusions / security incidents (including Forensic Analysis and Root Cause Analysis) and preservation of evidence.
 - 4.5. Providing situational awareness and reporting on cyber security status, incidents, and trends in adversary behavior to appropriate organizations including to CERT- In and NCIIPC.
 - 4.6. Engineer and operate network defense technologies such as Intrusion Detection Systems (IDSes) and data collection / analysis systems.



- 4.7. MIIs to adopt security automation and orchestration technologies in C-SOC to automate the incident identification, analysis and response as per the defined procedures.
5. Further to the above, the C-SOC of MII shall, at the minimum, undertake the following activities:
- 5.1. In order to detect intrusions / security incidents in real time, the C-SOC should monitor and analyze on a 24x7x365 basis relevant logs of MII's network devices, logs of MII's systems, data traffic, suitable cyber intelligence (intel) feeds sourced from reliable vendors, inputs received from other MIIs, inputs received from external agencies such as CERT-In, etc. The cyber intelligence (intel) feeds may include cyber news feeds, signature updates, incident reports, threat briefs, and vulnerability alerts.
- 5.2. To this end, appropriate alert mechanisms should be implemented including a comprehensive dashboard, tracking of key security metrics and provide for cyber threat scorecards.
- 5.3. The C-SOC should conduct continuous assessment of the threat landscape faced by the MII including undertaking periodic VAPT (Vulnerability Assessment and Penetration Testing).
- 5.4. The C-SOC should have the ability to perform Root Cause Analysis, Incident Investigation, Forensic Analysis, Malware Reverse Engineering, etc. to determine the nature of the attack and corrective and/or preventive actions to be taken thereof.
- 5.5. The C-SOC should conduct periodic (at the minimum quarterly) cyber attack simulation to aid in developing cyber resiliency measures. The C-SOC should develop and document mechanisms and standard operating procedures to recover from the cyber-attacks within the stipulated RTO of the MII. The C-SOC should also document various scenarios and standard operating procedures for resuming operations from Disaster Recovery (DR) site of MII.
- 5.6. The C-SOC should conduct periodic awareness and training programs at the MII and for its members / participants / intermediaries with regard to cyber security, situational awareness and social engineering.



- 5.7. The C-SOC should be capable to prevent attacks similar to those already faced. The C-SOC should also deploy multiple honey pot services which are dynamic in characteristics to avoid being detected as honey pot by attackers.
6. As building an effective C-SOC requires appropriate mix of right people, suitable security products (Technology), and well-defined processes and procedures (Processes), an indicative list of areas that MIIs should consider while designing and implementing a C-SOC are as follows:
- 6.1. The MII shall ensure that the governance and reporting structure of the C-SOC is commensurate with the risk and threat landscape of the MII. The C-SOC shall be headed by the Chief Information Security Officer (CISO) of the MII. The CISO shall be designated as a Key Managerial Personnel (KMP) and relevant provisions relating to KMPs in the SEBI Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) Regulations, 2012 and the subsequent circulars issued by SEBI relating to KMPs, shall apply to the CISO.
- 6.2. While the CISO is expected to work closely with various departments of MIIs, including MII's Network team, Cyber Security team and Information Technology (IT) team, etc., the reporting of CISO shall be directly to the MD & CEO of the MII.
- 6.3. The roles and responsibilities of CISO may be drawn from Ministry of Electronics and IT notification No. 6(12)/2017-PDP-CERT-In dated March 14, 2017.
- 6.4. The C-SOC should deploy appropriate technology tools of adequate capacity to cater to its requirements. Such tools shall, at the minimum, include Security Analytics Engine, Malware detection tools, Network and User Traffic Monitoring and Behavior Analysis systems, Predictive Threat Modelling tools, Tools for monitoring of System parameters for critical systems / servers, Deep Packet Inspection tools, Forensic Analysis tools, etc.
- 6.5. Each MII is advised to formulate a Cyber Crisis Management Plan (CCMP) based on its architecture deployed, threats faced and nature of operations. The CCMP should define the various cyber events, incidents



and crisis faced by the MII, the extant cyber threat landscape, the cyber resilience envisaged, incident prevention, cyber crisis recognition, mitigation and management plan. The CCMP should be approved by the respective Standing Committee on Technology / IT- Strategy Committee of the MIIs and the governing board of the MII. The CCMP should also be reviewed and updated annually.

- 6.6. The C-SOC should have well-defined and documented processes for monitoring of its systems and networks, analysis of cyber security threats and potential intrusions / security incidents, usage of appropriate technology tools deployed by C-SOC, classification of threats and attacks, escalation hierarchy of incidents, response to threats and breaches, and reporting (internal and external) of the incidents.
- 6.7. The C-SOC should employ domain experts in the field of cyber security and resilience, network security, data security, end-point security, etc.
- 6.8. The MIIs are also advised to build a contingent C-SOC at their respective DR sites with identical capabilities w.r.t. the primary C-SOC in line with the SEBI Circular CIR/MRD/DMS/12/2012 dated April 13, 2012 read with SEBI Circular CIR/MRD/DMS/17/2012 dated June 22, 2012. Additionally, the MIIs should perform monthly live-operations from their DR-C-SOC.
- 6.9. The C-SOC should document the cases and escalation matrices for declaring a disaster.
7. In view of the feedback received from MIIs, it has been decided that MIIs may choose any of the following models to set-up their C-SOC :
 - i. MII's own C-SOC manned primarily by its internal staff,
 - ii. MII's own C-SOC, staffed by a service provider, but supervised by a full time staff of the MII. (Refer to 7.3)
 - iii. C-SOC that may be shared by the MII with its group entities (that are also SEBI recognized MIIs),
 - iv. C-SOC that may be shared by the MII with other SEBI recognized MII(s).



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- 7.1. The responsibility of cyber security of an MII, adherence to business continuity and recovery objectives, etc. should lie with the respective MII, irrespective of the model adopted for C-SOC.
- 7.2. The respective risk committee(s) of the MII should evaluate the risks of outsourcing the respective activity.
- 7.3. The MII may outsource C-SOC activities in line with the guidelines as given in Annexure-A.
8. A report on the functioning of the C-SOC, including details of cyber-attacks faced by the MII, major cyber events warded off by the MII, cyber security breaches, data breaches should be placed on a quarterly basis before the board of the MII.
9. The system auditor of the MII shall audit the implementation of the aforesaid guidance in the annual system audit of the MII. The Scope and/or Terms of Reference (ToR) of the annual system would accordingly be modified to include audit of the implementation of the aforementioned areas.
10. Further, in continuation to the requirement specified at para 52 of the Annexure A to the aforementioned SEBI Circular dated July 06, 2015, the C-SOC shall share relevant alerts and attack information with members / participants / intermediaries of the MII, other MIIs, external cyber response agencies such as CERT-In, and SEBI.
11. MIIs are directed to take necessary steps to put in place appropriate systems and processes for implementation of the circular, including necessary amendments to the relevant bye-laws, rules and regulations, if any, within six months from the date of the circular. In case wherein a MII currently has a C-SOC set-up that is different from that mentioned at para 7(i) - 7(iv), such MIIs are directed to adopt and transit to one of the models mentioned at para 7(i) - 7(iv) within a period of one year from the date of issuance of this circular.

Annexure A

1. Level of support definitions for outsourcing/in-house are as follows:
 - 1.1. Security Analyst Level 1 (L1): This function may be mostly outsourced



- a) Monitoring SIEM Solution console for identifying the security events generated by the log sources integrated with SIEM tools.
 - b) Identification of security events that are false +ve before qualifying event as an incident.
 - c) Identify the exceptions which are identified as an event (e.g. VA scanning performed by SEBI appointed 3rd party which may be identified as port scanning attack) .
 - d) Perform first level event analysis before qualifying the incidents.
 - e) Qualifying the event as an incident using Knowledgebase.
 - f) Escalating exceptions & Events to L2 level.
 - g) Log Incident tickets in service management tool and assign it to the respective team.
 - h) Follow-up for the closure of the incident tickets generated.
- 1.2. Security Analyst Level 2 (L2): Combination of Outsource / In-House
- (a) Exception Analysis.
 - (b) Analysis of extended events.
 - (c) Confirmation of False +ve & update Knowledge Base.
 - (d) Qualify Incident & provide mitigation suggestions.
 - (e) Escalate incident to next level.
 - (f) Update /configuration correlation rules after approval.
- 1.3. Security Analyst Level 3 (L3): Combination of Outsource / In-House
- (a) Analysis of escalated Incidents.
 - (b) Define correlation rules.
 - (c) Analysis of impact on SIEM over all correlation rules and operations for the correlation rules suggested by Level 2 Analyst.
 - (d) Approve correlation rules after the impact analysis.
 - (e) Perform impact analysis before deployment of correlation rules.
 - (f) Perform impact analysis for update and upgrade of SIEM & Advance security solutions components.
 - (g) Define Mitigation suggestions for newly identified incidents.
 - (h) Approve the reports before sharing with others.



- 1.4. SOC Manager (L4) : In-house
- (a) Lead and manage Security Operations Centre.
 - (b) Provide strategic directions to SOC team and organization for security posture improvements.
 - (c) To identify key contacts for incident escalation and change management activities.
 - (d) Ensure compliance to SLA.
 - (e) Ensure process adherence and process improvisation to achieve operational objectives.
 - (f) Revise and develop processes to strengthen the current Security Operations.
 - (g) Responsible for team and vendor management.
 - (h) Responsible for overall use of resources and initiation of corrective action where required for Security Operations Center.
 - (i) Escalate to the other IT Infra. Management teams or application maintenance teams, as necessary.
 - (j) Overall responsibility for delivery of in scope activities as a part of this engagement.
 - (k) Point of contact for problem escalation and reporting.
- 1.5. Security Subject Matter Expert for Security technologies: In-house with reliance on external expertise
- (a) Subject Matter Expert (SME) for SIEM and Advance security solutions.
 - (b) Assist you with troubleshooting steps to be performed by you in order to re-establish connectivity between the SIEM System and SEBI's locations.
 - (c) Provide software-level management for the SIEM System components;
 - (d) Verify data collection and log continuity;
 - (e) Manage user access including user and group permissions updates;
 - (f) Review application performance, capacity, and availability make recommendations as appropriate;
 - (g) Review SIEM System disk space usage;



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- (h) Verify time synchronization among SIEM System components;
- (i) Perform archival management and retrieval per change management process;
- (j) Provide problem determination / problem source identification for the SIEM System, consisting of creating tickets & tracking progress of Open tickets
- (k) Managing tickets to resolution / closure, in accordance with the processes as defined in the Integrated and Transition vendor announcements & manage SIEM System update alerts;
- (l) Install application patches and software updates in order to improve performance, or enable additional functionality

Illustrative Training Requirements Security Analyst Level 1 (L1):

- 1) SEC401: Security Essentials Bootcamp Style
<https://www.sans.org/event/cyber-defence-canberra-2018/course/security-essentials-bootcamp-style>
- 2) SEC301: Introduction to Cyber Security
<https://www.sans.org/course/introduction-cyber-security>

Security Analyst Level 2 (L2):

- 1) SEC542: Web App Penetration Testing and Ethical Hacking
<https://www.sans.org/event/cyber-defence-canberra-2018/course/web-app-penetration-testing-ethical-hacking>
- 2) SEC566: Implementing and Auditing the Critical Security Controls -In-Depth
<https://www.sans.org/private-training/course/implementing-auditing-critical-security-controls>
- 3) SEC575: Mobile Device Security and Ethical Hacking
<https://www.sans.org/private-training/course/mobile-device-security-ethical-hacking>

Security Analyst Level 3 (L3):



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- 1) SEC504: Hacker Tools, Techniques, Exploits, and Incident Handling
<https://www.sans.org/event/cyber-defence-canberra-2018/course/hacker-techniques-exploits-incident-handling>
- 2) FOR508: Advanced Digital Forensics, Incident Response, and Threat Hunting
<https://www.sans.org/event/digital-forensics-summit-2018/course/advanced-incident-response-threat-hunting-training>
- 3) SEC501: Advanced Security Essentials -Enterprise Defender
<https://www.sans.org/private-training/course/advanced-security-essentials-enterprise-defender>
- 4) MGT414: SANS Training Program for CISSP® Certification
<https://www.sans.org/course/sans-plus-s-training-program-cissp-certification-exam>

SOC Manager (L4):

- 1) Cyber Security Specialist
<http://www.leaderquestonline.com/it-career-training/cybersecurity-specialist/>
- 2) Managing Security Operations: Detection, Response, and Intelligence
<https://www.sans.org/event/rocky-mountain-2018/course/managing-security-operations-detection-response-and-intelligence>
- 3) SIEM with Tactical Analytics
<https://www.sans.org/private-training/course/siem-with-tactical-analytics>
- 4) SEC511: Continuous Monitoring and Security Operations
<https://www.sans.org/course/continuous-monitoring-security-operations>
- 5) SEC599: Defeating Advanced Adversaries -Implementing Kill Chain Defenses
<https://www.sans.org/course/defeating-advanced-adversaries-kill-chain-defenses>



4.30 *Database for Distinctive Number (DN) of Shares¹²¹*

1. Share capital reconciliation of the entire issued capital of the company by the issuer or its agent is a mandatory requirement under Regulation 75 of the SEBI (Depositories & Participants) Regulations, 2018.
2. In order to ensure centralised record of all securities, including both physical and dematerialised shares, issued by the company and its reconciliation thereof, the Depositories are advised to create and maintain a database of distinctive numbers (DN) of equity shares of listed companies with details of DN in respect of all physical shares and overall DN range for dematerialised shares.
3. The DN database shall make available, information in respect of issued capital, such as DN Range, number of equity shares issued, name of stock exchange where the shares are listed, date of in-principle listing / final trading approval / dealing permission, shares held in physical or demat form, date of allotment, shares dematerialized under temporary (frozen) ISIN (International Securities Identification Number) or Permanent (active) ISIN etc., at one place.
4. Based on consultations with the Depositories and Stock Exchanges, the following guidelines are given for the operationalisation of the DN database -

4.1. Instructions to the Depositories

- 4.1.1. The depositories shall create and maintain a database to capture DN in respect of all physical equity shares and overall DN range for dematerialised equity shares issued by listed companies.
- 4.1.2. The depositories shall provide an interface to the Stock Exchange, Issuers/RTAs for online updation and to the DPs for online enquiry. The same shall be released for live updates latest by September 30, 2015.

¹²¹ Reference: Circular CIR/MRD/DP/10/2015 dated June 05, 2015



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4.1.3. The database shall include the following information -

i. Distinctive Numbers (From)	vii. Trading start date
ii. Distinctive Numbers (To)	viii. Physical/demat
iii. Number of Equity shares	ix. Date of allotment and date of issue (date of credit to BO account)
iv. Name of stock exchange	x. ISIN along with name of company
v. Date of in-principle listing approval	xi. Nature of ISIN [Temporary (Frozen) or Permanent (Active)]
vi. Date of final trading approval / dealing permission	

4.1.4. The depositories shall ensure that the database maintained by them is continuously updated and synchronised. The initial synchronisation may be in batch mode and shall thereafter shift to online mode.

4.1.5. The Depositories, in co-ordination with the Stock Exchanges, having nationwide trading terminals and the Issuers/RTAs, shall facilitate the process of populating the database with details of equity share capital and the corresponding DN information as on September 30, 2015.

4.2. Instructions to the Stock Exchanges

4.2.1. The Stock Exchanges shall provide the following information of all companies listed on the concerned Stock Exchange as on September 30, 2015 -



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- i. Total number of equity shares (A) for which final trading approval / dealing permission has been granted.
- ii. Total number of equity shares (B) for which in-principle listing approval has been granted but final trading approval / dealing permission is pending.
- iii. Total number of equity shares comprising the paid-up capital i.e. (A+B).

4.2.2. The Stock Exchanges shall use the interface provided by the Depositories for the following -

- i. In respect of companies where the final trading approval / dealing permission was awaited as on September 30, 2015, consequent to update of DN information by Issuers/RTAs, the stock exchange shall validate the DN information updated by the Issuer/RTA and update the date of 'in-principle' listing approval, date of final trading approval / dealing permission and trading start date [as per point nos. (v), (vi) and (vii) of 5.1.3], immediately upon granting of such permissions.
- ii. In respect of further issue of shares by listed companies, consequent to update of DN information by Issuers/RTAs, the stock exchange shall validate the DN information updated by the Issuer/RTA and update the date of 'in-principle' listing approval, date of final trading approval / dealing permission and trading start date [as per point nos. (v), (vi) and (vii) of 5.1.3], immediately upon granting of such permissions.
- iii. In respect of companies coming out with initial public offer or new listings on stock exchanges, the stock exchange shall update the DN database with the total number of equity shares for which final trading approval / dealing permission has been granted.



iv. In respect of companies whose capital is changed/ altered for any reason other than further issuance of shares such as buy-back of shares, forfeiture of shares, capital reduction, etc., the stock exchange shall confirm such change/alteration in the capital as updated by the Issuer/RTA in the DN database.

4.2.3. In case the DN data on listed shares as per the records of Issuers/RTAs does not match with records of the Stock Exchanges, the Stock Exchanges shall coordinate with the Issuer/RTA to reconcile such differences.

4.3. Instructions to the Issuers/RTAs

4.3.1. Issuers/RTAs shall use the interface provided by the Depositories for the following -

- i. To update DN information in respect of all physical share capital and overall DN range for dematerialised share capital for all listed companies.
- ii. Updating the fields (i)-(iv), (viii) and (ix) given in para 5.1.3, on a continuous basis for subsequent changes including changes in case of further issue, fresh issuance / new listing and other change / alteration in capital (such as buy-back of shares, forfeiture of shares, capital reduction, etc.).
- iii. Capturing / updating the DN information on a continuous basis while processing, dematerialisation / rematerialisation requests confirmation, executing corporate action, etc.

4.3.2. Issuers/RTAs shall take all necessary steps to update the DN database. If there is mismatch in the DN information with the data provided / updated by the Stock Exchanges in the DN database, the Issuer/RTA shall take steps to match the records and update the same latest by December 31, 2015.



4.3.3. Failure by the Issuers/RTAs to ensure reconciliation of the records as required in terms of para above shall attract appropriate actions under the extant laws.

4.4. Instructions to the DPs

4.4.1. The DPs shall use the interface provided by the Depositories to check the DNs of certificates of equity shares submitted for dematerialisation and ensure that appropriate ISIN is filled in Dematerialisation Request Form, as applicable, while processing request for dematerialisation.

4.31 Ticker on Website - For Investor awareness¹²²

In order to create wider awareness about the same, Depositories and Depository Participants are advised to run the following ticker on their websites:

"No need to issue cheques by investors while subscribing to IPO. Just write the bank account number and sign in the application form to authorise your bank to make payment in case of allotment. No worries for refund as the money remains in investor's account."

Depositories are advised to communicate the above to their depository participants and ensure its implementation.

4.32 Separate mobile number/ email id for the clients of Depository Participants (DPs)¹²³

- i. It has been observed that DPs do not have the procedure to check that separate mobile number/ email id is uploaded for each client.
- ii. In view of the same Depositories are advised to instruct their participants to ensure that separate mobile number/E-mail address is uploaded for each client. However, under exceptional circumstances, the participants may, at the specific written request of a client, upload the same mobile number/E-mail address for more than one client

¹²² Reference: Email on "Ticker on Website - For Investor awareness" dated November 05, 2015

¹²³ Email on Separate mobile number/ email id for the clients of Depository Participants (DPs) dated January 16, 2015.



provided such clients belong to one family. 'Family' for this purpose would mean self, spouse, dependent children and dependent parents.

4.33 *Investor Protection Fund (IPF) of Depositories¹²⁴*

1. The Depository System Review Committee (DSRC) had examined various aspects of the depository IPF including utilization and investment policy of IPF and quantum of funds to be transferred to IPF. The Expert Committee on Clearing Corporations also deliberated the issue with regard to quantum of funds to be transferred by the Depositories to their IPF.
2. SEBI (Depositories and Participants) (Amendment) Regulations, 2012 require every depository to establish and maintain an Investor Protection Fund (IPF). Pursuant to the aforesaid committee recommendations, the SEBI (Depositories and Participants) Regulations were amended mandating the depositories to credit five per cent or such percentage as may be specified by the Board, of its profits from depository operations every year to the IPF.
3. Based on recommendations of DSRC and Expert Committee on Clearing Corporations, the following guidelines are being issued with regard to IPF of the Depositories.

Utilization of the IPF

4. The IPF may be utilized for the following purposes with a focus on depository related services:
 - i. Promotion of investor education and investor awareness programmes through seminars, lectures, workshops, publications (print and electronic media), training programmes etc. aimed at enhancing securities market literacy and promoting retail participation in securities market.
 - ii. To aid, assist, subsidise, support, promote and foster research activities for promotion/ development of the securities market.

¹²⁴ Reference: Circular SEBI/HO/MRD/DP/CIR/P/2016/58 dated June 07, 2016



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- iii. To utilize the fund for supporting initiatives of Depository Participants for promotion of investor education and investor awareness programmes.
 - iv. To utilize the fund in any other manner as may be prescribed/ permitted by SEBI in the interest of investors.
5. Depositories shall frame their internal guidelines on utilisation of the funds in accordance with the aforementioned objectives and post approval of their board, submit the same to SEBI within 30 days from the date of this circular. Depositories shall also keep SEBI informed of any subsequent changes in internal guidelines with regard to utilization of IPF.

Constitution and Management of the IPF

6. The IPF shall be administered by way of a Trust created for the purpose.
- i. The IPF Trust shall consist of atleast one Public Interest Director (PID) of the depository, one person of eminence from an academic institution from the field of finance / an expert in the field of investor education / a representative from the registered investor associations recognized by SEBI and Managing Director of the Depository.
 - ii. The Depository shall provide the secretariat for the IPF Trust.
 - iii. The Depository shall ensure that the funds in the IPF are kept in a separate account designated for this purpose and that the IPF is immune from any liabilities of the Depository.

Contribution to the IPF

7. The following contributions shall be made by the Depository to the IPF.
- i. 5% of their profits from Depository operations every year. The depositories shall transfer the amount with effect from the Financial Year 2012-13 as specified in the SEBI (Depositories and Participants) (Amendment) Regulations, 2016.
 - ii. All fines and penalties recovered from Depository Participants and other users including Clearing Member pool account penalty



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as specified in SEBI circular no. SMDRP/Policy/Cir-05/2001 dated February 01, 2001.

- iii. Interest or Income received out of any investments made from the IPF.
- iv. Funds lying to the credit of IPR (Investor Protection Reserve) / BOPF (Beneficial Owners Protection Fund) of the Depository or any other such fund / reserve of the Depository shall be transferred to IPF.
- v. Any other sums as may be prescribed by SEBI from time to time

Investments of Fund

- 8. Funds of the Trust shall be invested in instruments such as Central Government securities, fixed deposits of scheduled banks and any such instruments which are allowed as per the investment policy approved by the Board of the Depository. The investment policy shall be devised with an objective of capital protection along with highest degree of safety and least market risk.
- 9. The balance available in the IPF as at the end of the month and the amount utilised during the month including the manner of utilization shall be reported in the Monthly Development Report of the Depository.

4.34 *Enhanced Supervision of Depository Participant*¹²⁵

- 1. Uniform nomenclature to be followed by stock brokers for Naming/Tagging of Bank and Demat Accounts and the reporting of such accounts to the Depositories.
 - 1.1. Bank accounts and Demat accounts maintained by all stock brokers shall have appropriate nomenclature to reflect the purpose for which those bank/demat accounts are being maintained.
 - 1.2. The nomenclature for bank accounts and demat accounts to be followed is given as under:

¹²⁵ Reference: Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.



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1.2.1. Bank account(s) which hold clients funds shall be named as "Name of Stock Broker - Client Account".

1.2.2. Deleted¹²⁶

1.2.3. Demat account(s) which hold clients' securities shall be named as "Name of Stock Broker- Client Account".

1.2.4. Deleted¹²⁷

1.2.5. Demat account(s), maintained by the stock broker for depositing securities collateral with the clearing corporation, shall be named as "Name of Stock Broker-Collateral Account".

1.2.6. Demat account(s) held for the purpose of settlement would be named as "Name of Stock Broker - Pool account".

1.2.7. Bank account(s) held for the purpose of settlement would be named as "Name of Stock Broker - Settlement Account"

Accordingly naming proprietary bank/demat accounts of the stock broker as 'Stock Broker-Proprietary Account' is voluntary. It is however clarified that bank/demat account which do not fall under the

¹²⁶ Paragraph 1.2.2 in circular number SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 which read as "Bank account(s) which hold own funds of the stock broker shall be named as "Name of Stock Broker - Proprietary Account" deleted in view of CIR/HO/MIRSD/MIRSD2/CIR/P/2017/64 dated June 22,2017

¹²⁷ Paragraph 1.2.4 in circular number SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 which read as "Demat account(s), which hold own securities of the stock broker, shall be named as "Name of Stock Broker-Proprietary Account" deleted in view of CIR/HO/MIRSD/MIRSD2/CIR/P/2017/64 dated June 22,2017



Clauses 1.2.1,1.2.3, 1.2.5 , 1.2.6 and 1.2.7 would be deemed to be proprietary.¹²⁸

2. Imposition of uniform penal action on depository participants by the Depositories in the event of non-compliance with specified requirements.

Monitoring criteria for Depository Participants

- a. Failure to furnish Networth certificate to Depository for year ending March 31st by September 30th.
- b. Failure to furnish Internal Audit report to Depository for half year ending September 30th by November 15th and half year ending March 31st by May 15th.
- c. Failure to co-operate with the Depository for conducting inspection by not submitting all the information/records sought within 45 days from the due date specified in the letter of intimation.
- d. Failure to submit data for the half yearly Risk Based Supervision within the time specified by Depositories.
- e. Failure to furnish half yearly compliance certificate/report to Depository for half year ending June 30th by July 30th and half year ending December 31st by January 31st.
- f. Failure to furnish monthly Investor grievance report by 10th day of next month.
- g. In case depository participant shares incomplete/wrong data or fails to submit data on time.
- h. Failure to submit financial statements as per timeline prescribed by the Depositories.

4.35 ***Amendment pursuant to comprehensive review of Investor Grievance Redressal Mechanism¹²⁹***

In order to enhance the effectiveness of grievance redressal mechanism at Market Infrastructure Institutions (MIIs), SEBI has comprehensively reviewed the existing framework in consultation with the Stock

¹²⁸ Reference circular number CIR/HO/MIRSD/MIRSD2/CIR/P/2017/64 dated June 22,2017

¹²⁹ Reference: Circular SEBI/HO/DMS/ CIR/P/2017/15 dated February 23, 2017



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Exchanges and Depositories (inter alia, issues relating to strengthening of arbitration mechanism and investor protection mechanism).

Based on the aforesaid review, it has been decided to revamp the grievance redressal mechanism at Stock Exchanges and Depositories (wherever applicable), as follows:-

1. Investor **Grievance Resolution Panel (IGRP)/ Arbitration Mechanism**

The existing IGRP/ arbitration mechanism to be modified as follows:

A. Public dissemination of profiles of arbitrators

In order to enhance transparency and also to provide choice to parties, Stock Exchanges/ Depositories shall disseminate information w.r.t. brief profile, qualification, areas of experience/ expertise, number of arbitration matters handled, pre-arbitration experience, etc. of the arbitrators on their website.

B. Submission of documents in soft copies

In order to assist the arbitrators in pronouncing comprehensive and speedy awards, Stock Exchanges/ Depositories shall make necessary arrangements in terms of hardware viz., computer, scanner, printer, etc. and required software's at exchange offices/ Investor Service Centers (ISCs) to facilitate the clients to type/ convert their documents into electronic format/ soft copy. Such electronic format/ soft copies shall be provided to the arbitrators along with original submissions in physical copies.

C. Review and Training of arbitrators

Investor Service Committee of the Stock Exchanges/ Depositories shall review the performance of the arbitrators annually and submit the review report to the Board of the Stock Exchange/ Depository. Training need of the arbitrators will be catered by National Institute of Securities Markets (NISM). Cost of training of arbitrators may be incurred from ISF.



D. Mechanism for implementation of award

Stock Exchanges/ Depositories shall create a common database of defaulting clients accessible to members/ depository participants across the Stock Exchanges/ Depositories.

For this purpose, a client may be identified as defaulter if the client does not pay the award amount to the member/ depository participant as directed in the IGRP/ arbitration/ appellate arbitration order and also does not appeal at the next level of redressal mechanism within the timelines prescribed by SEBI or file an application to court to set aside such order in accordance with Section 34 of the Arbitration and Conciliation Act, 1996 (in case of aggrieved by arbitration/ appellate award).

E. Empanelment of arbitrators and segregation of arbitration and appellate arbitration panel

There shall be separate panels for arbitration and appellate arbitration. Further, for appellate arbitration, at least one member of the panel should be a Retired Judge.

Stock Exchanges/ Depositories shall obtain prior approval of SEBI before empanelment of arbitrators/ appellate arbitrators.

F. Empanelment of IGRP members

Stock Exchanges shall empanel IGRP members and no arbitrator/ appellate arbitrator shall be empaneled as IGRP member.

G. Revision in professional fee of arbitrators

The arbitrator fee shall be upwardly revised to Rs.18,000/- (Rs. Eighteen thousand) per case. Consequent to this upward revision, the additional expenses attributable to a client over and above the fee structure specified in point J, shall be borne by the client (wherever applicable) and Stock Exchange/ Depository equally. The total expense attributable to the member/ depository participant has to be borne by the concerned member/ depository participant.



H. Place of arbitration/ appellate arbitration

In case award amount is more than Rs. 50 lakh (Rs. Fifty lakh), the next level of proceedings (arbitration or appellate arbitration) may take place at the nearest metro city, if desired by any of the party involved. The additional cost for arbitration, if any, to be borne by the appealing party.

I. Arbitration/ appellate arbitration award

In order to safeguard the interest of the parties involved in arbitration and to ensure speedy implementation of the arbitration award, the rate of interest on the award passed by arbitrators shall be in compliance with Arbitration and Conciliation (Amendment) Act, 2015.

J. Speeding up grievance redressal mechanism

- (i) In order to have faster implementation of award and to discourage delayed filing of arbitrations by members, the fee structure (exclusive of statutory dues - stamp duty, service tax, etc.) for filing arbitration reference shall be as follows:-

Amount of Claim / Counter Claim, whichever is higher (Rs.)	If claim is filed within six months from the date of dispute	If claim is filed after six months from the date of dispute or after one month from the date of IGRP order, whichever is later	If the claim is filed beyond the timeline prescribed in column 3, (only for member)
≤ 10,00,000	1.3% subject to a minimum of Rs.10,000	3.9% subject to a minimum of Rs.30,000	Additional fee of Rs. 3,000/- per month over and above fee prescribed in



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			column 3
> 10,00,000 - 25,00,000 ≤	Rs. 13,000 plus 0.3% amount above Rs. 10 lakh	Rs. 39,000 plus 0.9% amount above Rs. 10 lakh	Additional fee of Rs. 6,000/- per month over and above fee prescribed in column 3
> 25,00,000	Rs. 17,500 plus 0.2 % amount above Rs. 25 lakh subject to maximum of Rs. 30,000	Rs. 52,500 plus 0.6 % amount above Rs. 25 lakh subject to maximum of Rs.90,000	Additional fee of Rs. 12,000/- per month over and above fee prescribed in column 3

(ii) The filing fee will be utilized to meet the fee payable to the arbitrators.

(iii) A client, who has a claim / counter claim upto Rs. 10 lakh (Rs. Ten lakh) and files arbitration reference, will be exempted from filing the deposit.

(iv) Excess of filing fee over fee payable to the arbitrator, if any, to be deposited in the IPF of the respective Stock Exchange.

(v) In all cases, on issue of the arbitral award the stock exchange shall refund the deposit to the party in whose favour the award has been passed.

2. Investor Protection fund (IPF), Investor Service fund (ISF), Interest on IPF and Interest on ISF

A. IPF and ISF management structure



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- (i) In order to ensure effective utilization of interest income on IPF, supervision of utilization of interest on IPF will rest with the IPF Trust.
- (ii) In order to have better management and control on the contributions and utilization of ISF fund, supervision of the same will rest with the Investor Service Committee.

B. Investor Protection fund corpus

In order to ensure the adequacy of corpus of the IPF, Stock Exchanges and Depositories shall periodically review the sources of the fund and the eligible compensation amount so as to recalibrate the fund to make suitable recommendation for enhancement.

C. Utilization of IPF, ISF, interest on IPF and interest on ISF

Modified guidelines for utilization of IPF, Interest on IPF, ISF and Interest on ISF would be as follows

Sr. No.	Particulars	Utilization
1	IPF	Stock Exchanges: To meet the legitimate investment claims of the clients of the defaulting members.
		Depository: a) Promotion of investor education and investor awareness programmes through seminars, lectures, workshops, publications (print and electronic media), training programmes etc. aimed at enhancing securities market literacy and promoting retail participation in securities market; b) To utilize the fund for supporting initiatives of Depository Participants for promotion of investor



		<p>education and investor awareness programmes;</p> <p>c) To utilize the fund in any other manner as may be prescribed/ permitted by SEBI in the interest of investors;</p> <p>d) To meet the legitimate claims of the beneficial owners, upto the maximum cap as to be determined by the depository, in case the same is not settled by the beneficial owner indemnity insurance;</p>
2	Interest on IPF	<p><i>Stock Exchanges:</i></p> <p>a) To further strengthen the corpus, 75% of interest on IPF earned every year should be treated as corpus of IPF;</p> <p>b) The balance 25% may be utilized by the exchange for promotion of investor education and investor awareness programmes through seminars, lectures, workshops, publications (print and electronic media), training programmes etc. aimed at enhancing securities market literacy, promoting retail participation in securities market and undertaking research activities related to securities market. Capital expenditure would be permissible only w.r.t. setting up of Investor Service Centre. However, no expenditure to be incurred on product promotion in any manner.</p> <p>c) In any other manner as may be prescribed/ permitted by SEBI in the interest of investors;</p> <p><i>Depositories:</i></p> <p>To further strengthen the corpus, 100% of Interest on IPF should be treated as corpus of IPF</p>



3	ISF	<p><i>Exchanges:</i></p> <p>a) ISF may be utilized only for promotion of investor education and investor awareness programmes through seminars, lectures, workshops, publications (print and electronic media), training programmes etc. aimed at enhancing securities market literacy and promoting retail participation in securities market;</p> <p>b) At least 50% should be spent at Tier II & Tier III cities;</p> <p>c) Cost of training of arbitrators;</p> <p>d) In any other manner as may be prescribed/ permitted by SEBI in the interest of investors;</p>
4	Interest on ISF	<p><i>Exchanges:</i> Interest on ISF should be ploughed back to ISF</p>

D. Admissibility of claim for making payment out of IPF in Stock Exchanges

In the event of default by the member, all transactions executed on exchange platform shall be eligible for settlement from IPF (subject to maximum limit), subject to the appropriate norms laid down by the Defaulters' Committee.

E. Determination of legitimate claims from IPF for clients of the defaulter member

The Stock Exchanges shall ensure that once a member has been declared defaulter, the claim (s) shall be placed before the Defaulters' Committee for sanction and ratification. The Defaulters' Committee's advice w.r.t. legitimate claims shall be sent to the IPF Trust for disbursement of the amount immediately.

In case the claim amount is more than the coverage limit under IPF or the amount sanctioned and ratified by the Defaulters'



Committee is less than the claim amount then the investor will be at liberty to prefer for arbitration mechanism for claim of the balance amount.

F. Threshold limit for interim relief paid out of IPF in Stock Exchanges

In partial modification to Circular No. CIR/MRD/ICC/30/2013 dated September 26, 2013 on “Investor Grievance Redressal Mechanism” the following changes are prescribed:

- (i) Stock Exchanges, in consultation with the IPF Trust and SEBI, shall review and progressively increase the amount of interim relief available against a single claim for an investor, atleast every three years.
- (ii) The Stock Exchanges shall disseminate the interim relief limit fixed by them and any change thereof, to the public through a Press Release and also through its website.
- (iii) In case, award is in favour of client and the member opts for arbitration wherein the claim value admissible to the client is not more than Rs. 20 lakhs (Rs. Twenty lakhs), the following steps shall be undertaken by the Stock Exchange:
 - a) In case the IGRP award is in favour of the client then 50% of the admissible claim value or Rs. 2.00 lakhs (Rs. Two lakhs), whichever is less, shall be released to the client from IPF of the Stock Exchange.
 - b) In case the arbitration award is in favour of the client and the member opts for appellate arbitration then 50% of the amount mentioned in the arbitration award or Rs. 3.00 lakhs (Rs. Three lakhs), whichever is less, shall be released to the client from IPF of the Stock Exchanges. The amount released shall exclude the amount already released to the client at clause (a) above.
 - c) In case the appellate arbitration award is in favour of the client and the member opts for making an application under Section 34 of the Arbitration and Conciliation Act, 1996 to set



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aside the appellate arbitration award, then 75% of the amount determined in the appellate arbitration award or Rs. 5.00 lakhs (Rs. Five Lakhs), whichever is less, shall be released to the client from IPF of the Stock Exchanges. The amount released shall exclude the amount already released to the client at clause (a) and (b) above.

d) Total amount released to the client through the facility of interim relief from IPF in terms of this Circular shall not exceed Rs. 10.00 lakhs (Ten lakhs) in a financial year.

3. Disciplinary Action Committee, Defaulters' Committee, Investors Service Committee, Arbitration Committee and IPF Trust

- (i) In partial modification to circular no. MRD/DoP/SE/Cir-38/2004 dated October 28, 2004 and CIR/MRD/DSA/33/2012 dated December 13, 2012, the functions and composition of the Disciplinary Action Committee, Defaulter's Committee, Investors Service Committee and IPF Trust will be as follows:

Sr. No.	Name of Committee	Functions handled	Composition
1	<i>Disciplinary Action Committee</i>	<p>i. The Committee shall formulate the policy for regulatory actions including warning, monetary fine, suspension, withdrawal of trading terminal, expulsion, to be taken for various violations by the members of the exchange.</p> <p>ii. Based on the laid down policy, the Committee shall consider the cases of violations observed during inspection, etc and impose appropriate regulatory action</p>	<p>(i) The Committee should have a minimum of 3 members and a maximum of 5 members;</p> <p>(ii) The Public Interest Directors shall form a majority of the Committee;</p> <p>(iii) A maximum of two key management personnel of the exchange can be on the committee</p>



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		<p>on the members of the exchange.</p> <p>iii. While imposing the regulatory measure, the Committee shall adopt a laid down process, based on the 'Principles of natural justice'.</p>	<p>and one of which shall necessarily be the Managing Director of the stock exchange;</p> <p>(iv) The Committee may also include independent external persons such as retired judge, etc.;</p> <p>(v) SEBI may nominate members in the Committee, if felt necessary in the interest of securities market;</p>
2	Defaulters' Committee	<p>i. To realize all the assets / deposits of the defaulter/ expelled member and appropriate the same amongst various dues and claims against the defaulter/ expelled member in accordance with the Rules, Byelaws and Regulations of the exchange.</p> <p>ii. In the event both the clearing member and his constituent trading member are declared defaulter, then the Defaulter's Committee of the stock exchange and the Defaulter's Committee of the clearing corporation shall work together to realise the assets of both the clearing</p>	<p>(i) The Committee should have a minimum of 3 members and a maximum of 5 members;</p> <p>(ii) The Public Interest Directors shall form a majority of the Committee;</p> <p>(iii) A maximum of two key management personnel of the exchange can be on the Committee;</p> <p>(iv) The Committee may also include independent external persons such as</p>



		<p>member and the trading member.</p> <p>iii. Admission or rejection of claims of client/ trading members/ clearing members over the assets of the defaulter/ expelled member.</p> <p>iv. Advise in respect of the claims to the Trustees of the IPF on whether the claim is to be paid out of IPF or otherwise.</p>	<p>retired judge, etc.;</p> <p>(v) SEBI may nominate members in the Committee, if felt necessary in the interest of securities market;</p>
3	<i>Investor Services Committee</i>	<p>(i) Supervising the functioning of Investors' Services Cell of the Exchange which includes review of complaint resolution process, review of complaints remaining unresolved over long period of time, estimate the adequacy of resources dedicated to investor services, etc.;</p> <p>(ii) Supervision of utilization of ISF;</p> <p>(iii) To have annual review of the arbitrators and arbitration/ awards (both quantum and quality of the awards).</p>	<p>(i) The Committee should have a minimum of 3 members and a maximum of 5 members;</p> <p>(ii) The Public Interest Directors shall form a majority of the Committee;</p> <p>(iii) A maximum of two key management personnel of the exchange can be on the Committee;</p> <p>(iv) The Committee may also include independent external persons;</p> <p>(v) SEBI may nominate</p>



			members in the Committee, if felt necessary in the interest of securities market;
4	<i>IPF Trust</i>	<p>(i) The IPF shall be administered by way of a Trust created for this purpose;</p> <p>(ii) The IPF Trust shall disburse the amount of compensation from IPF to the investor and such a compensation shall not be more than the maximum amount fixed for a single claim of an investor;</p> <p>(iii) The IPF Trust shall disburse the compensation to the investors as and when claims have been crystallized against a defaulter member;</p> <p>(iv) The IPF Trust need not wait for realization of assets of the defaulter member for disbursements of the claims;</p> <p>(v) Upon receipt of advice of the Defaulters' Committee, for payment, the IPF Trust should take necessary steps for disbursement of the amount</p>	<p>(i) The Trust should have maximum 5 trustees;</p> <p>(ii) The trustee should comprise of:</p> <ol style="list-style-type: none"> Three Public Interest Directors; One representative from investor associations recognized by SEBI; and The principal regulatory compliance officer of the MII; <p>(iii) The maximum tenure of a trustee (excluding the principal regulatory compliance officer of the MII, whose trusteeship would be co-terminus with the service) should be five years or as specified by SEBI;</p>



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		at the earliest	
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- (ii) The Arbitration Committee of the Stock Exchanges shall stand discontinued.



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4.36 *Digital Mode of Payment*¹³⁰

- SEBI has notified the SEBI (Payment of Fees and Mode of Payment) (Amendment) Regulations, 2017 on March 06, 2017 to enable digital mode of payment (RTGS/NEFT/IMPS etc.) of fees/penalties/remittance/other payments etc.
- Pursuant to above, SEBI has been receiving direct credit of amounts from various intermediaries / other entities.
- In order to identify and account such direct credit in the SEBI account, intermediaries / other entities shall provide the information as mentioned in Annexure below to SEBI once the payment is made.
- The above information should be emailed to the respective department(s) as well as to Treasury & Accounts division at tad@sebi.gov.in

Annexure									
Date	Department of SEBI	Name of Intermediary / Other entities	Type of Intermediary	SEBI Registration No. (If any)	PAN	Amount (Rs.)	Purpose of Payment (including the period for which payment was made e.g. quarterly, annually)	Bank name and Account number from which payment is remitted	UTR No.

4.37 *Monitoring of Foreign Investment limits in listed Indian companies*¹³¹

- As per FEMA, the onus of compliance with the various foreign investment limits rests on the Indian company. In order to facilitate the listed Indian companies to ensure compliance with the various foreign investment limits, SEBI in consultation with RBI has decided to put in place a new system for monitoring the foreign investment limits. The architecture of the new system has been explained in Annexure A.

¹³⁰ Reference circular number SEBI/HO/GSD/T&A/CIR/P/2017/42 dated May 16, 2017

¹³¹ Reference circular IMD/FPIC/CIR/P/2018/61 dated April 05, 2018



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- ii. The depositories (NSDL and CDSL) shall put in place the necessary infrastructure and IT systems for operationalizing the monitoring mechanism described at Annexure A.

Annexure A

Architecture of the System for Monitoring Foreign Investment Limits in listed Indian companies

Housing of the System

- i. The system for monitoring the foreign investment limits in listed Indian companies shall be implemented and housed at the depositories (NSDL and CDSL).

Designated Depository

- ii. A Designated Depository is a depository which has been appointed by an Indian company to facilitate the monitoring of the foreign investment limits of that company. As defined at Regulation 2(xxiii) of FEMA, the term 'Indian company' means a company incorporated in India and registered under the Companies Act, 2013.
- iii. The Designated Depository shall act as a lead depository and the other depository shall act as a feed depository.

Company Master

- iv. The company shall appoint any one depository as its Designated Depository for the purpose of monitoring the foreign investment limit.
- v. The stock exchanges (BSE, NSE and MSEI) shall provide the data on the paid-up equity capital of an Indian company to its Designated Depository. This data shall include the paid-up equity capital of the company on a fully diluted basis. As defined at Regulation 2(xvii) of FEMA, the term "fully diluted basis" means the total number of shares that would be outstanding if all possible sources of conversion are exercised.
- vi. The depositories shall provide an interface wherein the company shall provide the following information to its Designated Depository:
 - 1. Company Identification Number (CIN)
 - 2. Name
 - 3. Date of incorporation
 - 4. PAN number
 - 5. Applicable Sector
 - 6. Applicable Sectoral Cap



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7. Permissible Aggregate Limit for investment by FPIs
8. Permissible Aggregate Limit for investment by NRIs
9. Details of shares held by FPI, NRIs and other foreign investors, on repatriable basis, in demat as well as in physical form
10. Details of indirect foreign investment which are held in both demat and physical form
11. Details of demat accounts of Indian companies making indirect foreign investment in the capital of the company
12. Whether the Indian company that has total foreign investment in it, is either not owned and not controlled by resident Indian Citizens or is owned or controlled by person's resident outside India (Yes or No)
13. ISIN-wise details of the downstream investment in other Indian companies

The information provided by the companies shall be stored in a Company Master database. The Designated Depository, if required, may seek additional information from the company for the purpose of monitoring the foreign investment limits. The companies shall ensure that in case of any corporate action, the necessary modification is reflected immediately in the Company Master database.

- vii. In the event of any change in any of the details pertaining to the company, such as increase/decrease of the aggregate FPI/NRI limits or the sectoral cap or a change of the sector of the company, etc. the company shall inform such changes along with the supporting documentation to its Designated Depository. Such documentation may include:
 1. Board of Directors resolution approving the increase/decrease
 2. General body resolution approving the increase/decrease
 3. Company Secretary certificate for compliance with FEMA, 1999

Reporting of trades

- viii. At present, as per SEBI guidelines, the custodians are reporting confirmed trades of their FPI clients to the depositories on a T+1 basis. This reporting shall continue and the data shall be the basis of calculating FPI investments/holding in Indian companies.
- ix. With respect to NRI (repatriable) trades, Authorized Dealer (AD) Banks shall report the transactions of their NRI clients to the depositories. The AD Banks shall be guided by the circulars issued by RBI in this regard.

Activation of a Red Flag Alert



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- x. The monitoring of the foreign investment limits shall be based on the paid-up equity capital of the company on a fully diluted basis to ensure that all foreign investments are in compliance with the foreign investment limits.
- xi. A red flag shall be activated whenever the foreign investment within 3% or less than 3% of the aggregate NRI/FPI limits or the sectoral cap. This shall be done as follows :

Aggregate NRI investment limit in the company

1. The system shall calculate the percentage of NRI holdings in the company and the investment headroom available as at the end of the day with respect to the aggregate NRI investment limit
2. If the available headroom is 3% or less than 3% of the aggregate NRI investment limit, a red flag shall be activated for that company.
3. Thereafter, the depositories and exchanges shall display the available investment headroom, in terms of available shares, for all companies for which the red flag has been activated, on their respective websites.
4. The data on the available investment headroom shall be updated on a daily end-of-day basis as long as the red flag is activated.

Aggregate FPI investment limit of the company

5. The system shall calculate the percentage of FPI holding in the company and the investment headroom available as at the end of the day with respect to the aggregate FPI investment limit
6. If the available headroom is 3% or less than 3% of the aggregate FPI investment limit, a red flag shall be activated for that company.
7. Thereafter, the depositories and exchanges shall display the available investment headroom, in terms of available shares, for all companies for which the red flag has been activated, on their respective websites.
8. The data on the available investment headroom shall be updated on a daily end-of-day basis as long as the red flag is activated.

Sectoral cap of the company

9. The system shall calculate the total foreign investment in the company by adding the aggregate NRI investment on the stock exchange, the aggregate FPI investment in the company and other foreign investment as provided by the company in the company master.



10. If the total foreign investment in a company is within 3% or less than 3% of the sectoral cap, then a red flag shall be activated for that company.
 11. Thereafter, the depositories and exchanges shall display the available investment headroom, in terms of available shares, for all companies for which the red flag has been activated, on their respective websites.
 12. The data on the available investment headroom shall be updated on a daily end-of-day basis as long as the red flag is activated.
- xii. The depositories shall inform the exchanges about the activation of the red flag for the identified scrip. The exchanges shall issue the necessary circulars/public notifications on their respective websites. Once a red flag has been activated for a given scrip, the foreign investors shall take a conscious decision to trade in the shares of the scrip, with a clear understanding that in the event of a breach of the aggregate NRI/FPI limits or the sectoral cap, the foreign investors shall be liable to disinvest the excess holding within five trading days from the date of settlement of the trades.

Breach of foreign investment limits

- xiii. Once the aggregate NRI/FPI investment limits or the sectoral cap for a given company have been breached, the depositories shall inform the exchanges about the breach. The exchanges shall issue the necessary circulars/public notifications on their respective websites and shall halt all further purchases by :
1. FPIs, if the aggregate FPI limit is breached
 2. NRIs, if the aggregate NRI limit is breached
 3. All foreign investors, if the sectoral cap is breached
- xiv. In the event of a breach of the sectoral cap/aggregate FPI limit/aggregate NRI limit, the foreign investors shall divest their excess holding within 5 trading days from the date of settlement of the trades, by selling shares only to domestic investors.

Method of disinvestment

- xv. The proportionate disinvestment methodology shall be followed for disinvestment of the excess shares so as to bring the foreign investment in a company within permissible limits. In this method, depending on the limit being breached, the disinvestment of the breached quantity shall be uniformly spread across all foreign Investors/FPIs/NRIs which are net



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buyers of the shares of the scrip on the day of the breach. The foreign investors are required to disinvest the excess quantity by selling them only to domestic investors, within 5 trading days of the date of settlement of the trades that caused the breach.

- xvi. This method has been illustrated with the help of an example provided below.

Total shares that can be purchased by foreign investors till sectoral cap is not breached	600
Total quantity purchased by foreign investors on T day	1000
Breach quantity	400

Time	Foreign Investor	Purchase quantity	Cumulative Purchase by foreign investor	Quantity to be disinvested by the foreign investor
1000 hrs	ABC	100	100	40
1015 hrs	XYZ	250	350	100
1145 hrs	TYU	50	400	20
1230 hrs	POI	180	580	72
1300 hrs	QSX	120	700	48
1400 hrs	REW	150	850	60
1410 hrs	LOP	150	1000	60
Total		1000		400

- xvii. As can be observed from the above table, the foreign investors/FPIs/NRIs which are required to disinvest shall be identified and shall be informed of the excess quantity that they are required to disinvest.
- xviii. In the case of FPIs which have been identified for disinvestment of excess holding, the depositories shall issue the necessary instructions to the custodians of these FPIs for disinvestment of the excess holding within 5 trading days of the date of settlement of the trades.
- xix. In the case of NRIs which have been identified for disinvestment of excess holding, the depositories shall issue the necessary instructions to the Authorized Dealer (AD) Banks for disinvestment of the excess holding within 5 trading days of the date of settlement of the trades.
- xx. The depositories shall utilize the FPI trade data provided by the custodians, post custodial confirmation, on T+1 day, where T is the trade date. The breach of investment limits (if any) shall be detected at the end of T+1 day



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and therefore, the announcement pertaining to the breach shall be made at the end of T+1 day. The foreign investors who have purchased the shares of the scrip during the trading hours on T+1 day shall also be given a time period of 5 trading days from the date of settlement of such trades, to disinvest the holding accruing from the aforesaid purchase trades. In other words, the purchase trades of such foreign investors which have taken place of T+1 day, shall be settled on T+3 day and thereafter a time period from T+4 day to T+8 day shall be available to them to disinvest their entire holding arising from purchases on T+1 day.

xxi. If T+1 is a settlement holiday, then the custodial confirmation of the trade executed on T day shall be done on T+2 day and the subsequent settlement of the trade on T+3 day. In such a scenario, the breach would be detected at the end of T+2 day.

xxii. A table summarizing the breach-disinvestment scenario is given below

Parameter	Purchase on T Day	Purchase on T+1
<i>Date of breach</i>	T day	T day
<i>Date of trade</i>	T day	T+1 day
<i>Date of detection of breach</i>	T+1 day (End of day) T+2 day (End of Day, if T+1 is a settlement holiday)	T+1 day (End of day) T+2 day (End of Day), if T+1 is a settlement holiday
<i>Date of settlement of transaction</i>	T+2 day T+3 day, if either T+1 day or T+2 day is a settlement holiday	T+3 day T+4 day, if either T+2 day or T+3 day is a settlement holiday
<i>Disinvestment time frame</i>	5 trading days from the date of settlement of the transactions which were executed on the day of the breach i.e. 5 trading days from T+2 day If T+1 day or T+2 day is a settlement holiday, then 5 trading days from T+3 day	5 trading days from the date of settlement of the transactions which were executed on T+1 day i.e. 5 trading days from T+3 day If T+2 day or T+3 day is a settlement holiday, then 5 trading days from T+4 day



- xxiii. In the event the foreign shareholding in a company comes within permissible limit during the time period for disinvestment, on account of sale by other FPI or other group of FPIs, the original FPIs, which have been advised to disinvest, would still have to do so within the disinvestment time period, irrespective of the fresh availability of an investment headroom during the disinvestment time period.
- xxiv. There shall be no annulment of the trades which have been executed on the trading platform of the stock exchanges and which are in breach of the sectoral caps/aggregate FPI limits/aggregate NRI limits.

Failure to disinvest within 5 trading days

- xxv. If a breach of the investment limits has taken place on account of the FPIs and the identified FPIs have failed to disinvest within 5 trading days, then necessary action shall be taken by SEBI against the FPIs.

Fees

- xxvi. The Designated Depository shall levy reasonable fee/charges on the company towards development, ongoing maintenance and monitoring costs at an agreed upon frequency.

4.38 Disclosure of performance of CRAs on Stock Exchange and Depository website¹³²

Each CRA shall furnish data on sharp rating actions in investment grade rating category, as per the format specified in Annexure B, to Stock Exchanges and Depositories for disclosure on website on half-yearly basis, within 15 days from the end of the half-year (31stMarch/ 30thSeptember).

Annexure B

Sharp rating actions in investment grade rating category
 (Excluding non-cooperative issuers)

S. No.	Rating action	Number of ratings
1.	Number of rating downgrades of more than 3 notches	
2.	Number of downgrades to default from investment grade ratings	

¹³² Reference circular SEBI/ HO/ MIRSD/ DOS3/ CIR/ P/ 2018/ 140 dated November 13, 2018



3.	Number of rating upgrades of more than 3 notches	
4.	Number of outstanding ratings as on March 31/ September 30	

4.39 Early Warning Mechanism to prevent diversion of client securities¹³³

1. There have been instances where stock brokers had diverted clients' securities received as collaterals towards margin obligations and / or settlement obligations, for raising loan against shares on their own account and / or for meeting securities shortages in settlement obligations on its own account. However, such instances of diversion of securities come to light when stock broker failed in meeting the margin and/ or settlement obligations to Stock Exchange / Clearing Corporation.
2. It has been decided to put in place an Early Warning Mechanism and sharing of information between Stock Exchanges, Depositories and Clearing Corporations to detect the diversion of client's securities by the stock broker at an early stage so as to take appropriate preventive measures. The threshold for such early warning signals shall be decided by the Stock Exchanges, Depositories and Clearing Corporations with mutual consultation.
3. Early warning signals, for prevention of diversion of clients' securities, may include the following:
 - 3.1. Deterioration in financial health of the stock broker/ depository participant based on any of the following parameters:
 - a) Significant reduction in net worth over previous half-year / year.
 - b) Significant losses in the previous half years / years.
 - c) Delay in reporting of Annual Report, Balance Sheet, Internal Audit Reports, Risk Based Supervision (RBS) data and any other data related to its financial health to the Stock Exchanges/ Depositories.
 - d) Failure to submit information sought by the Stock Exchange/ Depositories on its dealing with related parties / promoters.
 - e) Significant mark-to-market loss on proprietary account/ related party accounts
 - f) Repeated instances of pay-in shortages.

¹³³ Reference Circular SEBI/HO/MIRSD/DOP/CIR/P/2018/153 dated December 17, 2018



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- g) Significant trading exposure or amount of loans or advances given to and investments made in related parties/ group.
 - h) Sudden activation of significant number of dormant client's accounts and/ or significant activity in the dormant account/s.
 - i) Significant number of UCC modifications.
 - j) Resignation of Statutory Auditors or Directors.
- 3.2. Early warning signals in relation to securities pledge transactions by the stock broker to be identified by the Depositories and shall be shared with Stock Exchanges which may include:
- a) Alerts for stock brokers maintaining multiple proprietary demat accounts and opening any new demat account in the name of stock broker for client purpose.
 - b) Movement of shares to/from a large number of clients' demat accounts or large value shares to stock broker proprietary accounts and vice a versa.
 - c) Transfer of large value of shares through off-market transfers other than for settlement purposes.
 - d) Invocation of pledge of securities by lenders against stock broker or his clients.
 - e) Significant depletion of client's shares in the stock broker client account maintained by the stock broker.
- 3.3. Increase in number of investor complaints against the stock broker / depository participant alleging un-authorized trading / unauthorized delivery instructions being processed and non-receipt of funds and securities and non-resolution of the same.
- 3.4. Alerts generated from the monthly/ weekly submissions made by stock broker under Risk Based Supervision (RBS) or Enhanced Supervision to the Stock Exchanges.
- a) Non-recovery of significant dues from debit balance clients over a period of time.
 - b) Significant dues to credit balance clients over a period of time.
 - c) Failure by stock broker to upload weekly data regarding monitoring of clients' funds as specified in SEBI's circular on Enhanced Supervision, for 3 consecutive weeks.
 - d) Pledging securities in case of clients having credit balance and using the funds so raised against them for own purposes or for funding debit balance of clients.



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- e) Mis-reporting / wrong reporting about the client funds/securities.
 - f) Significant increase in RBS score.
- 3.5. Stock broker's terminal disabled for certain number of days in any segment / Stock Exchange in previous quarter.
4. Stock Exchanges and Depositories shall frame an internal policy / guidelines regarding non-cooperation by stock brokers and depository participants during inspections which shall lay down the time period, the type of documents critical for closing the inspections, which if not submitted, can be treated as non-cooperation.
- 4.1. Failure to submit data sought for inspections especially relating to bank / demat accounts, client ledgers etc. despite repeated reminders.
 - 4.2. Failure to provide reasonable access to the records or any office premise
5. Stock Exchanges/ Clearing Corporations/ Depositories, shall devise a mechanism to detect diversion of clients' securities and to share information among themselves in respect of:
- 5.1. Diversion of pay-out of securities to non-client accounts
 - 5.2. Mis-matches between gross (client-wise) securities pay-in and pay-out files of a stock brokers generated by the Clearing Corporation which shall be compared with actual transfer of securities to/from the client's depository accounts by the Depository. The cases of any mismatch found out by the Depository shall be informed to the concerned Stock Exchange / Clearing Corporation.
 - 5.3. Stock Exchange shall seek clarification from the concerned stock broker on the mismatches reported by Depository and identify transfer to a non-client / third party, without any trade obligation.
 - 5.4. Such information on wrong / fraudulent / unauthorized transfer shall be shared by the Stock Exchange with other Stock Exchange/s.
6. Any other alerts as the Stock Exchanges / Clearing Corporations and Depositories may deem fit.
7. Alerts triggered at one Stock Exchange / Clearing Corporation/ Depository through early warning mechanism shall be immediately shared with other Stock Exchanges / Depositories with respect to the stock broker / depository participant.



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8. Based on the analysis of the early warning data, if it is established that the stock broker's financial health has deteriorated and/ or he has made unauthorized transfer of funds / securities of the client, in such cases Stock Exchanges / Depositories shall jointly take preventive actions on the stock broker which may include one or more of, but not limited, to the following:

8.1. Actions to be initiated by the Stock Exchanges like:

- a) Blocking of certain percentage of available collaterals towards margin.
- b) Check securities register in respect of securities received and transferred against pay-in/pay-out against settlement and client's securities received as collateral.
- c) Check details of funds and securities available with the clearing member, Clearing Corporation and the Depository of that stock broker.
- d) Impose limits on proprietary trading by the stock broker.
- e) Prescribe and monitor shorter time duration for settlement of Running Account of clients.
- f) Conduct meeting with the designated directors of the stock broker to seek appropriate explanation.
- g) Uniform action of deactivation of trading terminals by all Stock Exchanges based on the communication received from other Stock Exchange.
- h) Initiate inspection of the stock broker/depository participant.
- i) Cross check information submitted by stock broker with other independent sources like collateral details with the Clearing Corporation, transactions in Bank and Depositories, with statement collected directly etc
- j) Where client money and securities diversion is suspected, appoint forensic auditor to trace trails of entire funds and securities of clients.

8.2. Actions to be taken by the Depositories:

- a) Restriction on further pledge of client securities from the client's account by freezing the stock broker client account for debit.
- b) Imposition of 100% concurrent audit on the depository participant.
- c) Cessation/ restriction on uses of Power of Attorney (POA) given to stock broker by clients mapped to such brokers only to meet



settlement obligation of that client. Clients to issue instructions electronically or through Delivery Instruction Slip (DIS) for delivery of shares for off market transfers.

8.3. Any other measures that Stock Exchanges/ Clearing Corporations/ Depositories may deem fit.

4.40 *Reporting for Artificial Intelligence(AI) and Machine Learning (ML) applications and systems offered and used by Market Infrastructure Institutions (MIIs)*¹³⁴

Background

1. SEBI is conducting a survey and creating an inventory of the AI / ML landscape in the Indian financial markets to gain an in-depth understanding of the adoption of such technologies in the markets and to ensure preparedness for any AI / ML policies that may arise in the future.

Scope definition

2. Any set of applications / software / programs/ executable / systems (computer systems) –cumulatively called application and systems, to carry out compliance operations / activities, where AI / ML is used for compliance or management purposes, is included in the scope of this circular. In order to make the scope of this circular inclusive of various AI and ML technologies in use, the scope also covers Fin-Tech and Reg-Tech initiatives undertaken by MIIs that involves AI and ML.
3. Technologies that are considered to be categorized as AI and ML technologies in the scope of this circular, are explained in Annexure A.

Regulatory requirements

4. All MIIs shall fill in the AI / ML reporting form (Annexure B) in respect of the AI or ML based applications or systems as defined in Annexure A offered or used by them, and submit the same in soft copy only at AI_MII_SE@sebi.gov.in (for stock Exchanges) / AI_MII_DEP@sebi.gov.in

¹³⁴ Reference Circular SEBI/HO/MRD/DOP1/CIR/P/2019/24 dated January 31, 2019



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(for Depositories) / AI_MIL_CC@sebi.gov.in (for Clearing Corporations) to SEBI on a quarterly basis within 15 days of the expiry of the quarter, with effect from quarter ending March 31, 2019.

Annexure A – Systems deemed to be based on AI and ML technology

Applications and Systems belonging but not limited to following categories or a combination of these:

1. Natural Language Processing (NLP), sentiment analysis or text mining systems that gather intelligence from unstructured data. – In this case, Voice to text, text to intelligence systems in any natural language will be considered in scope. Eg: robo chat bots, big data intelligence gathering systems.
2. Neural Networks or a modified form of it. – In this case, any systems that uses a number of nodes (physical or software simulated nodes) mimicking natural neural networks of any scale, so as to carry out learning from previous firing of the nodes will be considered in scope. Eg: Recurrent Neural networks and Deep learning Neural Networks
3. Machine learning through supervised, unsupervised learning or a combination of both. – In this case, any application or systems that carry out knowledge representation to form a knowledge base of domain, by learning and creating its outputs with real world input data and deciding future outputs based upon the knowledge base. Eg: System based on Decision tree, random forest, K mean, Markov decision process, Gradient boosting Algorithms.
4. A system that uses statistical heuristics method instead of procedural algorithms or the system / application applies clustering or categorization algorithms to categorize data without a predefined set of categories
5. A system that uses a feedback mechanism to improve its parameters and bases its subsequent execution steps on these parameters.



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6. A system that does knowledge representation and maintains a knowledge base.

Annexure B - Form to report on AI and ML technologies - to be submitted quarterly

S/N	Head	Value
1	Entity SEBI registration number	
2	Registered entity category	
3	Entity name	
4	Entity PAN no.	
5	Application / System name	
6	Date used from	
7	Type of area where AI or ML is used (order execution / Surveillance / compliance / others). In case of others, please specify.	
8	What is the name of the Tool / Technology that is categorized as AI and ML system / Application and submissions are declared vide this response	<free text field>
9	How was the AI or ML project implemented	<Internally / through solution provider / Jointly with a solution provider or third party>
10	Are the key controls and control points in your AI or ML application or systems in accordance with circular(s) of SEBI that mandate/s cyber security control requirements	<free text field>
11	Is the AI / ML system included in the system audit	<Yes / No>
12	Describe the application / system and how it uses AI / ML	<free text field>
13	What safeguards are in place to prevent abnormal behavior of the AI or ML application / System	<free text field>



4.41 Measures to expedite Dematerialisation of securities¹³⁵

1. In order to enable prompt execution of demat requests, Depositories shall provide additional details, such as PAN, Address and Residential status of investors in the DRF itself.
2. To include a provision in DRF to capture 2 signatures – one registered with DP at the time of demat account opening and the other registered with issuer/RTA at the time of allotment /transfer. The request submitted by BO would be only processed when both two signatures i.e one registered with RTA and other registered with DP matches with two respective signatures on DRF. In case of mismatch of any of the two signatures the existing process of verifying signature may be followed.
3. To advise Depository Participants to update bank account details of all demat account holders in their records.

4.42 Capacity Planning Framework for the Depositories¹³⁶

1. The capacity planning framework of the Stock Exchanges and Clearing Corporations was reviewed by Technical Advisory Committee (TAC) of SEBI. Based on recommendations of the committee, circular no. CIR/MRD/DP/17/2015 dated October 08, 2015 was issued to the Stock Exchanges and Clearing Corporations with regard to their capacity planning.
2. Depositories have been identified as financial Market Infrastructure Institutions which facilitate and perform systemically critical functions in the securities market. In view of their importance in the smooth functioning of the securities market, the framework for capacity planning of the Depositories was also discussed in TAC. Based on recommendations of the committee, it has been decided to put in place following requirements for Depositories while planning capacities for their

¹³⁵ Reference: SEBI letter MRD/DoPII/DSAII/MIRSD/DOS3/OW/2018/28162/1 dated October 22, 2018

¹³⁶ Reference: SEBI Circular No. SEBI/HO/MRD/DP/CIR/P/2017/29 dated April 03, 2017



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operations:

- a. The installed capacity shall be at least 1.5 times (1.5x) of the projected peak load.
 - b. The projected peak load shall be calculated for the next 60 days based on the per hour peak load trend of the past 180 days.
 - c. The Depositories shall ensure that the utilisation of resources in such a manner so as to achieve work completion in 70% of the allocated time.
 - d. All systems pertaining to Depository operations shall be considered in this process including all technical components such as network, hardware, software, etc., and shall be adequately sized to meet the capacity requirements.
 - e. In case the actual capacity utilization exceeds 75% of the installed capacity for a period of 15 days on a rolling basis, immediate action shall be taken to enhance the capacity.
 - f. The actual capacity utilisation shall be monitored especially during the period of the day in which pay-in and pay-out of securities takes place for meeting settlement obligations.
3. Depositories shall implement suitable mechanisms, including generation of appropriate alerts, to monitor capacity utilisation



on a real-time basis and shall proactively address issues pertaining to their capacity needs.

4.43 Statutory Committees¹³⁷

1. In order to ensure effective oversight of the functioning of depositories (hereafter referred as Market Infrastructure Institutions or MIIs), Regulation 30 of the SEBI (Depositories and Participants) Regulations, 2018 [SEBI (D&P) Regulations, 2018], mandates MIIs to constitute three functional committees and four oversight committees within each MII. A list of all such mandatory committees for MIIs along with their functions and detailed composition requirements is provided at Annexure A.

2. Further, while the aforementioned annexure provides for the composition that is specific to each statutory committee at MII, the overarching principles for composition and quorum of the statutory committee at MIIs shall be as under, which shall be applicable to all committees with an exception for Investor Grievance Redressal Committee (IGRC) and Advisory Committee:

2.1 On each committees at MIIs, except IGRC and Advisory Committee, the number of Public Interest Directors (PIDs) shall not be less than the total of number of shareholder directors, Key Management Personnel (KMPs), independent external persons, etc. put together, wherever shareholder directors, KMPs, independent external persons, etc. are part of the concerned committee.

2.2 PID shall be chairperson of each committee at MII.

2.3 To constitute the quorum for the meeting of the MII committee, the number of PIDs on each of the committees at MIIs shall not be less than total number of other members (shareholder directors, KMPs, independent external persons, etc. as applicable) put together.

2.4 The voting on a resolution in the meeting of the committees at MIIs shall be valid only when the number of PIDs that have cast their vote on such resolution is equal to or more than the total number of other members (shareholder directors, KMPs, independent external persons, etc., as applicable) put together who have cast their vote on such resolution.

2.5 The casting vote in the meetings of the committees shall be with the chairperson of the committee.

¹³⁷ Circular No. SEBI/HO/MRD/DOP2DSA2/CIR/P/2019/13 dated January 10, 2019 and Circular No. SEBI/HO/MRD/DOP2DSA2/CIR/P/2019/26 dated February 5, 2019



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2.6 Apart from that specifically provided in the Annexure, whenever required, a committee may invite Managing Director, other relevant KMPs and employees of the MII. However such invitee shall not have any voting rights.

As regards the composition and quorum of IGRC and Advisory Committee, the same shall be as prescribed in the enclosed Annexure A.

3. Further, MIIs are directed to adhere to the following:

3.1 Over and above the statutory committees mentioned at point 1 above, the committees that are mandated by relevant law for listed companies shall apply *mutatis mutandis* to MIIs.

3.2 MIIs shall lay down policy for the frequency of meetings, etc., for the statutory committees.

3.3 PIDs in Committees at MIIs:

3.3.1 SEBI (D&P) Regulations 2018 prescribes that a PID on the board of a MII shall not act simultaneously as a member on more than five committees of that MII.

3.3.2 It is clarified that the above limitation on maximum number of committees that a PID can be member of, shall be applicable only to statutory committees prescribed by SEBI under SEBI (D&P) Regulations, 2018, and circulars issued thereunder. The said requirement shall not be applicable to committees constituted under Companies Act, 2013, SEBI (Listing Obligations and Disclosure Requirements), 2015, amongst others.

3.3.3 In case of non-availability of adequate number of PIDs in a MII, the relevant MII shall take steps to induct more PIDs in order to fulfil the requirement of composition of committees within a MII.

3.4 Meeting of PIDs:

3.4.1 As per code of conduct for PIDs provided SEBI (D&P) Regulations 2018, the PIDs shall be required to meet separately every six months. It is added that all the PIDs shall necessarily attend all such meetings of PIDs

3.4.2 The objective of such meetings, shall include *inter alia* reviewing the status of compliance with SEBI letters/ circulars, reviewing the functioning of regulatory departments including the adequacy of resources dedicated to regulatory functions, etc. PIDs shall also prepare



a report on the working of the committees of which they are member and circulate the same to other PIDs. The consolidated report in this regard shall be submitted to the governing board of the MIIs. Further, PIDs shall identify the important issues which may involve conflict of interest for the MII or may have significant impact on the market and report the same to SEBI, from time to time.

3.5 Independent external persons in committees at MIIs:

3.5.1 The independent external persons forming a part of committees shall be from amongst the persons of integrity, having a sound reputation and not having any conflict of interest. They shall be specialists in the field of work assigned to the committee; however they shall not be associated in any manner with the relevant MII and its members.

3.5.2 MIIs shall frame the guidelines for appointment, tenure, code of conduct, etc., of independent external persons. Extension of the tenure may be granted to independent external persons at the expiry of the tenure, subject to performance review in the manner prescribed by SEBI for PIDs. Further, the maximum tenure limit of Independent external persons in a committee of MII shall be at par with that of PIDs, as prescribed under Regulation 25(3) of the SEBI (D&P) Regulations, 2018.

3.6 The existing MIIs shall submit a confirmation report to SEBI with regard to the formation and composition of the Committees listed out in the Annexure A and compliance with other norms prescribed in the circular, at the earliest but not later than three months from the date of the circular.

4. Performance review of Public Interest Directors (PIDs)¹³⁸:

4.1 In respect of Public Interest Directors (PIDs) appointed in the governing board of MIIs, Regulation 25(3) of SEBI(D&P) Regulations, 2018, provides the following:

“Public interest directors shall be nominated 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:

Provided that post the expiry of term(s) at the recognized stock exchange or the recognized clearing corporation / depository, a public interest director may be nominated for a further term of three years in

¹³⁸ Circular No. SEBI/HO/MRD/DOP2DSA2/CIR/P/2019/31 dated February 15, 2019



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other recognized clearing corporation or recognized stock exchange, or a depository, only after a cooling-off period of one year:

Provided further that a person may be nominated as a public interest director for a maximum of three terms across recognized stock exchanges / recognized clearing corporations / depositories, subject to a maximum age limit of seventy five years."

4.2 For complying with the aforementioned regulation, while developing a framework for performance review of PIDs, MIIs need to consider the following:

4.2.1 Policy for Performance review of PIDs:

- 4.2.1.1 The Nomination and Remuneration committee (NRC) of the MIIs will be responsible for framing the performance review policy for PIDs.
- 4.2.1.2 Such performance review policy shall include criteria for performance evaluation, methodology adopted for such evaluation and analyzing the results, amongst others.
- 4.2.1.3 Performance review policy of PID shall include scope for both internal evaluation as well as external evaluation.
- 4.2.1.4 Further, as performance review is not a static process and requires periodical review, NRC shall also be responsible for reviewing such performance review policy, at least once in 3 years.
- 4.2.1.5 Such performance review policy and changes made therein, shall be approved by the governing board of MII.

4.2.2 Guiding criteria of Performance Review:

As a part of framing performance review policy, NRC shall be primarily responsible for formulation of performance evaluation criteria. The criteria for performance review of PIDs, which shall be considered for both internal evaluation and external evaluation, may be framed by NRC



taking into consideration guiding principles provided at Annexure B. These principles would serve as a guidance for MIIs and the same may be adopted by respective MIIs, as considered appropriate, with additional principles, if any.

4.2.3 Evaluation mechanism:

- 4.2.3.1 PIDs shall be subjected to internal evaluation as well as external evaluation, carrying equal weightage.
- 4.2.3.2 Internal evaluation: All the governing board members shall evaluate the performance of each PID, on an annual basis at the end of every financial year.
- 4.2.3.3 External evaluation: PIDs shall also be subject to external evaluation during their last year of the term in a MII, by a management or a human resources consulting firm. The consultant shall take into consideration the performance of the PID for the entire tenure served in a given MII, at least up to 4 months before expiry of his/ her term. In order to avoid any bias or conflict of interest, external consultant should not be a related party or associated with the MII, the concerned PID or any other governing board members.
- 4.2.3.4 Such performance review should be carried out in fair & objective manner and the review should be recorded with clarity and verifiable facts in a standardized format covering all the relevant criteria / aspects.
- 4.2.3.5 While evaluating conflict of interest of a PID, the governing board of MII shall also take into consideration provisions of Clause 2(d) of Schedule II Part C of SEBI (D&P) Regulations, 2018 under the head 'Public Interest Director'; and conflict of interest, if any, of any PIDs



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should be disclosed to SEBI by the governing board with their comments/ views.

- 4.2.4 **Disclosure:** Performance evaluation criteria for PIDs shall be disclosed in their annual report as well as on the website of the concerned MII.
- 4.2.5 **Recommendation to SEBI:** After taking into account the performance of a PID in the concerned MII, on the basis of internal evaluation and external evaluation both carrying equal weightage, NRC shall consider and recommend extension of his / her tenure to the Governing Board of the MII. The Governing Board of the MII shall in-turn consider and recommend to SEBI if the tenure of the PID is desired to be extended by another term of three years.
- 4.2.6 In addition to the other requirements prescribed in performance review policy of the MIIs along-with norms specified in SEBI (D&P) Regulations, 2018, the following may be considered by NRCs of MIIs:
 - 4.2.6.1 It shall be ensured that the concerned PID hasn't remained absent for three consecutive meetings of the governing board and has attended seventy five per cent of the total meetings of the governing board in each calendar year; failing which PID shall be liable to vacate office.
 - 4.2.6.2 It shall be ensured that PIDs in the governing boards of MIIs are selected from diverse fields of work, in terms of their qualification and experience.
- 4.3 The application for extension of term of a PID shall be accompanied with the attendance details of PID in the meetings of various mandatory committees and of the governing board of the MII along-with specific reasons for seeking extension of his / her term as a PID. Such specific reasons shall include facts such as whether the concerned PID, during the term served, had identified any important issues concerning any matter which may involve conflict of interest, or have significant impact on functioning of MII, or may



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not be in the interest of securities market as a whole, and whether the PID had reported the same to SEBI.

4.4 In terms of SEBI (D&P) Regulations, 2018, it is clarified that a minimum of two names shall be submitted by MIIs at the time of making request for appointment of PID and extension of the term of existing PID, including appointment of PID for the purpose of broad basing the governing board, against each such vacancy.

4.5 It is clarified that the aforementioned norms specify the minimum requirements that have to be complied with by MIIs, however the NRCs of MIIs may adopt additional and more stringent norms while framing a policy for performance review of PIDs. With regard to the detailed criteria for performance evaluation, as provided in Annexure B to the circular, the same shall serve as an illustrative guide for MIIs to frame performance evaluation criteria –both for internal as well as external evaluation, and the same may be adopted by MIIs as considered appropriate, with additional criteria, if any.

4.5.1 Additionally, with regard to tenure of existing PIDs as on date of this circular, following is clarified:

4.5.1.1 The term of existing PIDs serving in a MII for more than three years, can be extended, subject to his / her performance review and a maximum tenure of 6 years as PID in that particular MII.

4.5.1.2 The term of existing PIDs, that have already served for six years or more in a single MII, shall not be eligible for further extension in that MII.



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CIRCULARS

1. Circular No. SMDRP/Policy/Cir-28/99 dated August 23, 1999.
2. Circular No. SMDRP/Policy/Cir-05/2001 dated February 1, 2001.
3. Circular No. D&CC/FITTC/Cir-09/2002 dated July 4, 2002.
4. Circular No. D&CC/FITTC/Cir-10/2002 dated September 25, 2002.
5. Circular No. D&CC/FITTC/Cir-13/2002 dated November 1, 2002.
6. Circular No. D&CC/FITTC/CIR - 12/2002 dated October 30, 2002.
7. Circular No. D&CC/FITTC/Cir-15/2002 dated December 27, 2002.
8. Circular No. LGL/Cir-2/2003 dated February 19, 2003.
9. Circular No. DCC/FITTC/Cir-19/2003 dated March 4, 2003
10. Circular No. SEBI/MRD/Policy/AT/Cir-19/2004 dated April 21, 2004.
11. Circular No. MRD/DoP/Dep/Cir-27/2004 dated August 16, 2004.
12. Circular No. MRD/DoP/Dep/Cir-29/2004 dated August 24, 2004.
13. Circular No. MRD/DoP/SE/Dep/Cir-36/04 dated October 27, 2004.
14. Circular No. SEBI/MRD/SE/DEP/Cir-4/2005 dated January 28, 2005.
15. Circular No. SEBI/MRD/SE/Cir-16/2005 dated August 04, 2005.
16. Circular No. MRD/DoP/SE/Dep/Cir-18/2005 dated September 2, 2005.
17. Circular No. MRD/DoP/Dep/Cir-22 /05 dated November 09, 2005.
18. Circular No. SEBI/MRD/DEP/Cir-24/05 dated December 22, 2005.
19. Circular No. SEBI/MRD/DEP/Cir-2/06 dated January 19, 2006.
20. Circular No. SEBI/MRD/DEP/Cir-3/06 dated February 21, 2006.
21. Circular No. MRD/DoP/Dep/Cir-09/06 dated July 20, 2006.
22. Circular No. MRD/DoP/Dep/SE/Cir-13/06 dated September 26, 2006.
23. Circular No. MRD/DoP/Dep/SE/Cir-17/06 dated October 27, 2006.
24. Circular No. MRD/Dep/Cir- 20/06 dated December 11, 2006.
25. Circular No. MRD/DoP/Dep/SE/Cir-22/06 dated December 18, 2006.
26. Circular No. MRD/DSA/SE/Dep/Cust/Cir-23/06 dated December 22, 2006.
27. Circular No. SEBI/CFD/DILDIP/29/2008/01/02 dated February 1, 2008.
28. Circular No. SEBI/MRD/Dep/Cir-03/2007 dated February 13, 2007.
29. Circular No. MRD/DoP/Cir- 5/2007 dated April 27, 2007.
30. Circular No. MIRSD/DPS-III/Cir-9/07 dated July 3, 2007.
31. Circular No. MIRSD/DPS- III/Cir-23/08 dated July 25, 2008.



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32. Circular No. SEBI/MRD/Dep/Cir-03/2008 dated February 28, 2008.
33. Circular No. MRD/DoP/Cir-20/2008 dated June 30, 2008.
34. Circular No. MRD/DoP/SE/Dep/Cir-2/2009 dated February 10, 2009.
35. Circular No. CIR/MRD/DP/19/2010 dated June 10, 2010.
36. Circular No. CIR/MRD/DP/20/2010 dated July 1, 2010.
37. Circular No. CIR/MRD/DP/22/2010 dated July 29, 2010.
38. Circular No. CIR/MRD/DO/37/2010 dated December 14, 2010.
39. Circular No. CIR/MRD/DP/04/2011 dated April 07, 2011.
40. Circular No. CIR/MRD/DP/05/2011 dated April 27, 2011.
41. Circular No. MIRSD/SE/Cir-21/2011 dated October 5, 2011.
42. Circular No. CIR/MRD/DMS/13/2011 dated November 29, 2011.
43. Circular No. CIR/MRD/DMS/12/2012 dated April 13, 2012
44. Circular No. CIR/MRD/ DMS/17/2012 dated June 22, 2012
45. Circular No. CIR/MRD/ICC/16/2012 dated June 15, 2012.
46. Circular No. CIR/MRD/DP/21/2012 dated August 02, 2012.
47. Circular No. CIR/MIRSD/09/2012 dated August 13, 2012.
48. Circular No. CIR/MRD/DP/22/2012 dated August 27, 2012.
49. Circular No. CIR SEBI/MIRSD /11/2012 dated September 05, 2012.
50. Circular No. CIR/MRD/DP/24/2012 dated September 11, 2012.
51. Circular No. CIR/MRD/DP/DA/25/2012 dated September 21, 2012.
52. Circular No. CIR/MRD/DP/27/2012 dated November 01, 2012.
53. Circular No. CIR/MRD/DP/32/2012 dated December 06, 2012.
54. Circular No. CIR SEBI/MIRSD/01/2013 dated January 04, 2013.
55. Circular No. CIR/MRD/DP/10/2013 dated March 21, 2013.
56. Circular No. CIR SEBI/MRD/DRMNP/26/2013 dated September 04, 2013.
57. Circular No. CIR SEBI/MIRSD /07/2013 dated September 12, 2013.
58. Circular No. CIR SEBI/MIRSD/09/2013 dated October 08, 2013.
59. Circular No. CIR/MIRSD/10/2013 dated October 28, 2013.
60. Circular No. CIR SEBI/MIRSD/ 12/2013 dated December 04, 2013.
61. Circular No. CIR SEBI/MRD/DOP/01/2014 dated January 07, 2014.
62. Circular No. CIR MRD/DMS/03/2014 dated January 21, 2014.
63. Circular No. CIR SEBI/MRD/DMS/05/2014 dated February 07, 2014.



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64. Circular No. CIR/MRD/DP/21/2014 dated July 01, 2014.
65. Circular No. CIR/MRD/DP/22/2014 dated July 04, 2014.
66. Circular No. CIR/MRD/DP/31/2014 dated November 12, 2014.
67. Circular No. CIR/MRD/DP/1/2015 dated January 12, 2015.
68. Circular No. CIR/ MIRSD/1/2015 dated March 04, 2015.
69. Circular No. CIR/MRD/DP/10/2015 dated June 05, 2015.
70. Circular No. CIR/MRD/DP/13/2015 dated July 06, 2015.
71. Circular No. CIR/MIRSD/2/2015 dated August 26, 2015.
72. Circular No. CIR/MRD/DP/18/2015 dated December 09, 2015.
73. Circular No. CIR/MRD/DP/19/2015 dated December 09, 2015.
74. Circular No. CIR/MRD/DP/20/2015 dated December 11, 2015.
75. Circular No. CIR/MIRSD/29/2016 dated January 22, 2016
76. Circular No. SEBI/HO/MRD/DP/CIR/P/2016/58 dated June 07, 2016.
77. Circular No. CIR/MIRSD/64/2016 dated July 12, 2016
78. Circular No. CIR/MIRSD/66/2016 dated July 21, 2016
79. Circular No. SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016
80. Circular No. CIR/IMD/FPIC/123/2016 dated November 17, 2016
81. Circular No. SEBI/HO/DMS/CIR/P/2017/15 dated February 23, 2017
82. Circular No. SEBI/HO/MIRSD/MIRSD6/CIR/P/2017/20 dated March 10, 2017
83. Circular No. SEBI/HO/MRD/DP/CIR/P/2017/29 dated April 03, 2017
84. Circular No. SEBI/HO/MIRSD/MIRSD1/CIR/P/2017/38 dated May 02, 2017
85. Circular number SEBI/HO/GSD/T&A/CIR/P/2017/42 dated May 16, 2017
86. Circular number CIR/MRD/DP/56/2017 dated June 14, 2017
87. Circular number CIR/HO/MIRSD/MIRSD2/CIR/P/2017/64 dated June 22, 2017
88. Circular number SEBI/HO/IMD/FIIC/CIR/P/2017/068 dated June 30, 2017
89. Circular number CIR/IMD/DF-1/67/2017 dated June 30, 2017



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90. Circular number SEBI/HO/MRD/DSA/CIR/P/2018/1 dated January 29, 2018
91. Circular number CIR/DDHS/P/59/2018 dated March 28, 2018
92. Circular number SEBI/HO/OIAE/IGRD/CIR/P/2018/58 dated March 28, 2018
93. Circular number IMD/FPIC/CIR/P/2018/61 dated April 05, 2018
94. Circular number SEBI/ HO/ MIRSD/ DOS3/ CIR/ P/ 2018/ 140 dated November 13, 2018
95. Circular number SEBI/HO/MIRSD/CIR/PB/2018/147 dated December 03, 2018
96. Circular number CIR/MRD/CSC/148/2018 dated December 07, 2018
97. Circular number SEBI/HO/MIRSD/DOP/CIR/P/2018/153 dated December 17, 2018
98. Circular number CIR/MRD/DP/158/2018 dated December 27, 2018
99. Circular SEBI/HO/MIRSD/DOS2/CIR/P/2019/10 dated Jan 04, 2019
100. Circular number SEBI/HO/MIRSD/DOP/CIR/P/2019/05 dated January 04, 2019
101. Circular No. SEBI/HO/MRD/DOP2DSA2/CIR/P/2019/13 dated January 10, 2019
102. Circular No. SEBI/HO/MRD/DOP2-DSA2/CIR/P/2019/22 dated January 23, 2019
103. Circular number SEBI/HO/MRD/DOP1/CIR/P/2019/24 dated January 31, 2019
104. Circular number SEBI/HO/MRD/DOP2DSA2/CIR/P/2019/26 dated February 05, 2019
105. Circular No. SEBI/HO/MRD/DOP2DSA2/CIR/P/2019/31 dated February 15, 2019
106. Circular number CIR/HO/MIRSD/DOS2/CIR/PB/2019/038 dated March 15, 2019
107. Circular number SEBI/HO/MRD/DMS1/CIR/P/2019/43 dated March 26, 2019



COMMUNICATIONS

1. SMDRP/NSDL / 3055 /1998 dated August 11, 1998.
2. SMDRP/RKD /NSDL/2494 /98 dated November 18, 1998.
3. SMDRP/NSDL/4615 /2000 dated March 13, 2000.
4. SMDRP/CDSL / 18300 /2000 dated November 16, 2000.
5. SMDRP/NSDL/26563/2001 dated April 10, 2001.
6. D&CC/ 1099 / 2002 dated November 01, 2002.
7. MRD/DRK/SU/16034/2003 dated August 22, 2003.
8. MRD/VSS/ARR/ 12255/2004 dated June 10, 2004.
9. MRD/DoP/ Dep/82334 /2006 dated December 14, 2006.
10. MRD/DEP/PP/123624 /2008 dated April 23, 2008.
11. MRD/DoP/MC/141442 /2008 dated October 17, 2008.
12. SEBI/ MRD/CDSL/ 149156 /2009 dated January 01, 2009.
13. MRD/CDSL/VM/ 155773 /2009 dated February 27, 2009.
14. MRD/NSDL/VM/158886 /2009 dated March 30, 2009.
15. MRD/DoP/NSDL/VM/ 162378 /2009 dated May 06, 2009.
16. MRD/DoP/NSDL/VM/168994 /2009 dated July 07, 2009.
17. MRD/CDSL/VM/168989 /2009 dated July 07, 2009.
18. SEBI/MRD/DEP/VM/169784 /09 dated July 15, 2009.
19. MRD/DoP/Dep/VM/182963/2009 dated November 12, 2009.
20. MRD/DoP/MAS - OW/16723/2010 dated August 17, 2010.
21. MRD/DP/SG-OW/202/2012 and MRD/DP/SG-OW/203/2012 dated January 4, 2012.
22. MRD/DP/SG-OW/2010/2012 dated January 20, 2012.
23. CFD email dated November 05, 2015.
24. MIRSD email dated January 16, 2015.
25. SEBI Letter No. MRD//DP/OW/23881/2015 dated August 24, 2015
SEBI letter No. SEBI/HO/MRD/DP/OW/2016/25739/1 & 25740/1 dated September 14, 2016
26. SEBI letter No. OW/00000/04961/2017/1 dated May 11, 2017



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- 27. SEBI letter MIRSD2/DB/AEA/OW/2018/7292 dated March 07, 2018
- 28. SEBI letter SEBI/MRD/ICC/OW/P/2018/27066/1 dated September 25, 2018
- 29. SEBI letter MRD/DoPII/DSAII/MIRSD/DOS3/OW/2018/28162/1 dated October 22, 2018