NISM CERTIFICATION EXAMINATION WORK BOOK

VI

Depository Operations

NiSM NATIONAL INSTITUTE OF SECURITIES MARKETS
An Educational Initiative of SEBI

Workbook
for
NISM-Series-VI: Depository Operations
Certification Examination

National Institute of Securities Markets

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This workbook has been developed to assist candidates in preparing for the National Institute of Securities Markets (NISM) Certification Examination for Depository Operations.

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Foreword

NISM is a leading provider of high-end professional education, certifications, training and research in financial markets. NISM engages in capacity building among stakeholders in the securities markets, through professional education, financial literacy, enhancing governance standards and fostering policy research.

The NISM certification programs aim at enhancing the quality and standards of professionals employed in various segments of the financial sector. NISM develops and conducts certification examinations and Continuing Professional Education (CPE) programs that aim at ensuring that professionals meet the defined minimum common knowledge benchmark for various critical securities market functions.

NISM certification examinations and educational programs service different securities market intermediaries focusing on varied product lines and functional areas. NISM certifications have established knowledge benchmarks for various market products and functions such as equities, mutual funds, derivatives, compliance, operations, advisory and research. NISM certification examinations and training programs provide a structured learning plan and career path to students and job aspirants, wishing to make a professional career in the securities markets.

NISM supports candidates by providing lucid and focused workbooks that assist them in understanding the subject and preparing for NISM Examinations. This book covers all the aspects related to the depository operations in India. Candidates will be able to understand the institutional structure of the depository system in India; processes related to dematerialisation, trading and settlement, pledging and hypothecation. This book will be beneficial to all the candidates who want to learn about the functions of Depositories and Depository Participants

Sashi Krishnan
Director

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While the NISM Certification examination will be largely based on material in this workbook, NISM does not guarantee that all questions in the examination will be from material covered herein.

Acknowledgement

This workbook has been reviewed jointly by the Certification team of NISM and Mr. R.Karthikeyan, Resource Person, NISM. NISM gratefully acknowledges the contribution of the Exam committee comprising of representative from National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL) committee members.

About the Author

This workbook has been developed by the certification team of NISM.

About NISM Certifications

The School for Certification of Intermediaries (SCI) at NISM is engaged in developing and administering Certification Examinations and CPE Programs for professionals employed in various segments of the Indian securities markets. These Certifications and CPE Programs are being developed and administered by NISM as mandated under Securities and Exchange Board of India (Certification of Associated Persons in the Securities Markets) Regulations, 2007.

The skills, expertise and ethics of professionals in the securities markets are crucial in providing effective intermediation to investors and in increasing the investor confidence in market systems and processes. The School for Certification of Intermediaries (SCI) seeks to ensure that market intermediaries meet defined minimum common benchmark of required functional knowledge through Certification Examinations and Continuing Professional Education Programmes on Mutual Funds, Equities, Derivatives Securities Operations, Compliance, Research Analysis, Investment Advice and many more.

Certification creates quality market professionals and catalyzes greater investor participation in the markets. Certification also provides structured career paths to students and job aspirants in the securities markets.

About the Certification Examination for Depository Participants

The examination seeks to create a common minimum knowledge benchmark for associated persons engaged or employed by a registered depository participant in:

(a) dealing or interacting with clients;
(b) dealing with securities of clients;
(c) handling redressal of investor grievances;
(d) internal control or risk management;
(e) activities having a bearing on operational risk; or
(f) maintenance of books and records pertaining to the above activities

The certification aims to enhance the quality of services as rendered by the Depository Participants.

Examination Objectives

On successful completion of the examination, the candidate should:

- Know the basics of the Indian securities market and the depository system, the need for depository and the key features of the depository system in India.
- Understand the institutional structure of the depository system in India and the business partners of a depository.
- Understand the regulatory framework in which the depositories and its DPs function, their eligibility criteria, registration procedure, rights and obligations etc.
- Know the various functions of the Depository and its Depository Participants (DPs) such as dematerialisation, trading and settlement, pledging and hypothecation.
  Understand how a demat account is opened, documents required to open an account and significance of Power of Attorney (POA).

Assessment Structure

The examination consists of 100 questions of 1 mark each and should be completed in 2 hours. The passing score on the examination is 60percent. There shall be negative marking of 25 percent of the marks assigned to a question.

Examination Structure

The exam covers knowledge competencies related to the basics of depository operations, services provided by the depository participants, account opening formalities and maintenance of the account, and the regulatory framework in which the depositories function and the different business partners of a Depository.

How to register and take the examination

To find out more and register for the examination please visit *www.nism.ac.in*

Important

- Please note that the Test Centre workstations are equipped with either Microsoft Excel or OpenOffice Calc. Therefore, candidates are advised to be well versed with both of these softwares for computation of numericals.
- The sample questions and the examples discussed in the workbook are for reference purposes only. The level of difficulty may vary in the actual examination.

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Chapter 1: Introduction to the Indian Capital Market

Learning Objectives:

After studying this chapter, you should know about:

- Capital market and its role in the economy
- Structure and participants of capital market
- Regulators and regulations related to capital market

1.1 Introduction

Transfer of resources from those with idle resources to others who have a productive need for them is perhaps most efficiently achieved through the securities markets. To state formally, securities markets provide channels for allocation of savings to investments and thereby decouple these two activities. As a result, the savers and investors are not constrained by their individual abilities, but by the economy's abilities to invest and save respectively, which inevitably enhances savings and investment in the economy.
A financial market consists of investors (buyers of securities), borrowers (sellers of securities), intermediaries and regulatory bodies.

1.2 Capital Market

The capital market has two interdependent segments, the primary market (new issuers) and secondary market (stock market). The primary market is used by issuers for raising fresh capital from the investors by making initial public offers or rights issues or offers for sale of equity or debt; on the other hand, the secondary market provides liquidity to these instruments, through trading and settlement on the stock exchanges. An active secondary market promotes the growth of the primary market and capital formation, since the investors in the primary market are assured of a continuous market where they have an option to liquidate their investments.

There are several major players in the primary market. These include the merchant bankers, mutual funds, financial institutions, foreign portfolio investors (FPIs) and individual investors. In the secondary market, there are the stock exchanges, stock brokers (who are members of the stock exchanges), the mutual funds, financial institutions, foreign portfolio investors (FPIs), and individual investors. The Registrars and Transfer Agents, Custodians and Depositories are capital market intermediaries which provide important infrastructure services to both the primary and secondary markets.

1.3 Regulatory Environment

The securities market transactions are subject to regulations under the four main legislations *viz.*,

- the Securities and Exchange Board of India Act, 1992;
- the Securities Contracts (Regulation) Act, 1956;
- the Depositories Act, 1996; and
- certain provisions of the Companies Act, 2013;
- Prevention of Money Laundering Act, 2002.

1.3.1 Securities and Exchange Board of India Act, 1992

The SEBI Act, 1992 vests SEBI with statutory powers for,
(a) protecting the interests of investors in securities market,
(b) promoting the development of the securities market, and
(c) regulating the securities market.

Its regulatory jurisdiction extends over corporates in the issuance of capital and transfer of securities and all intermediaries and persons associated with securities market. It can conduct enquiries, audits and inspection of all concerned and adjudicate offences under the Act. It has powers to register and regulate all market intermediaries and also to penalise them in case of violations of the provisions of the SEBI Act, Rules and Regulations. SEBI has full autonomy and authority to regulate and develop an orderly securities market.

1.3.2 Securities Contracts (Regulation) Act, 1956

The SC(R)A, 1956 provides for direct and indirect control of virtually all aspects of securities trading and the running of stock exchanges and aims at preventing undesirable transactions in securities. It gives the central government and SEBI the regulatory jurisdiction over (a) stock exchanges through a process of recognition and continued supervision, (b) contracts in securities, and (c) listing of securities on stock exchanges. As a condition of recognition, a stock exchange complies with prescribed conditions from the central government. Organised trading activity in securities takes place on a specified recognised stock exchange. The stock exchanges determine their own listing regulations which have to conform to the minimum listing criteria set out in the Securities Contracts Rules.

1.3.3 Depositories Act, 1996

The Depositories Act, 1996 provides for the establishment of depositories in securities market with the objective of ensuring free transferability of securities with speed, accuracy and security by (a) making securities freely transferable subject to certain exceptions; (b) dematerialisation of

the securities in the depository mode; and (c) providing for maintenance of ownership records in a book entry form. In order to streamline the settlement process, the Act envisages transfer of ownership of securities electronically by book entry. The Act has made the securities of all companies freely transferable in the depository mode, restricting the company's right to use its discretion in effecting the transfer of securities. The other procedural and the transfer deed requirements stated in the Companies Act have also been dispensed with.

1.3.4 Companies Act, 2013

The Companies Act 2013 deals with issue, allotment and transfer of securities and various aspects relating to company management. The Act provides for standard disclosures in public issues of capital, particularly in the fields of company management and projects, information about other listed companies under the same management, and management perception of risk factors. It also regulates underwriting, the use of premium and discounts on issues, rights and bonus issues, payment of interest and dividends, supply of annual report and other information. Act also provides for Insolvency and NCLT/NCLAT provisions.

1.3.5 The Prevention of Money Laundering Act, 2002

The PMLA 2002 is a Central Act to prevent money laundering and to provide for confiscation of property derived from money laundering. Anti-Money Laundering is a set of procedures, laws or regulations designed to stop/curb the practice of generating income through illegal actions/ criminal activity such as drug trafficking, terrorist funding and bringing the same into mainstream making it appear to have come from a legitimate source. KYC Guidelines have been introduced in the Capital Market based on this Act.

This Act requires all the Market participants, Intermediaries and other institutions connected therewith, to maintain a record of all the transactions done through them and to monitor and report suspicious transactions to Financial Intelligence Unit (FIU), Government of India.

1.4 Regulators

The responsibility for regulating the securities market is shared by the Securities and Exchange Board of India (SEBI), the Reserve Bank of India (RBI), the Department of Economic Affairs (DEA) of the Ministry of Finance, Ministry of Corporate Affairs (MCA).

In 2010, the Financial Stability and Development Council (FSDC) replaced the High Level Coordination Committee on Financial Markets (HLCCFM) which was earlier facilitating regulatory coordination among the above agencies, though informally. The secretariat of HLCCFM was in Ministry of Finance (Capital Market Division, Department of Economic Affairs).

The orders of SEBI under the securities laws are appealable before a Securities Appellate Tribunal. Most of the powers under the SCRA are exercisable by DEA while a few others by SEBI. The powers of the DEA under the SCRA are also con-currently exercised by SEBI. The powers in respect of the contracts for sale and purchase of securities, gold related securities, money market securities and securities derived from these securities and ready forward contracts in debt securities are exercised concurrently by RBI.

The SEBI Act and the Depositories Act are mostly administered by SEBI. The rules under the securities laws are framed by the government and regulations by SEBI, and all these are administered by SEBI. The powers under the Companies Act relating to issue and transfer of securities and non-payment of dividend are administered by SEBI in case of listed public companies and public companies proposing to get their securities listed. The SROs ensure compliance with their own rules as well as with the rules relevant for them under the securities laws.

Review Questions

Questions to assess your learning:

1. Which of the following is NOT directly a part of the Primary Market?
(a) Merchant Bankers
(b) Mutual Funds
(c) Exchanges
(d) Registrars and Transfer Agents

2. An active _____ promotes the growth of the primary market and capital formation.
(a) Secondary Market
(b) Bullion Market
(c) Money Market
(d) Forex Market

3. _____ aims at streamlining settlement process by transfer of ownership of securities electronically by book entry without making the securities move from person to person.
(a) Companies Act, 2013
(b) Depositories Act, 1996
(c) SEBI Act, 1992
(d) SCRA, 1956

4. _____ has powers to register and regulate all market intermediaries in the securities market and also to penalise them.
(a) RBI
(b) Depositories
(c) SEBI
(d) IRDA

Chapter 2: Introduction to Depository

Learning Objectives

After studying this chapter, you should know about the:

- Need for a depository system in India
- Key features of depository system in India
- Indian legal framework which governs the functioning of a depository
- Functions of a depository

2.1 Need for a Depository System

The earlier settlement system on Indian stock exchanges was highly inefficient and risky. It was characterized by an increased number of bad deliveries, mutilation of share certificates, slow transfer of securities, theft, forgery, and other irregularities.

There are primarily two legs to the settlement of securities—one is the transfer of securities and funds and second is the transfer of ownership. Both these legs in the earlier settlement system were plagued with irregularities. The transfer of securities was done through physical movement of securities which resulted in delays. The second aspect of the settlement related to the transfer of shares in name of the purchaser in the books of record of the company. However, the system of transfer of ownership was grossly inefficient as every transfer involved physical movement of paper securities to the issuer for registration and endorsement of change in ownership on the security certificate. In most of the cases, this process of transfer took more than the stipulated time in the Companies Act. A significant proportion of transactions were recorded as bad deliveries due to faulty compliance of paper work. All these added to costs and delays in settlement, restricted liquidity and made investor grievance redress procedure quite time consuming and in some cases even intractable.

To obviate these problems, the Depositories Act, 1996 was passed. It provided for the establishment of depositories in securities market with the objective of ensuring free transferability of securities with speed, accuracy and security. It does so by -

a. making securities of public limited companies freely transferable, subject to certain exceptions;
b. dematerialisation of the securities for holding and transfer in the depository mode; and
c. maintaining the ownership records in a book entry form.

2.1.1 Key Features of the Depository System in India

Multi-Depository System: The Depositories Act, 1996 provides for a multi-depository system. There can be various entities providing depository services.

Dematerialisation: The model adopted in India provides only for dematerialisation of securities. This was a significant step towards achieving a completely paper-free securities market. Dematerialisation of securities occurs when securities issued in physical form are destroyed and an equivalent number of securities are credited into the security holder(s) beneficial owner's account. India has adopted dematerialisation route through a depository. In a depository system, the investors stand to gain by way of an efficient settlement, lower costs and lower risks of theft or forgery, etc. But the implementation of the system has to be secure and well governed. All the players have to be conversant with the rules and regulations as well as with the technology for processing. The intermediaries in this system have to play strictly by the rules.

Depository services through depository participants: The Depositories Act, 1996 provides that the depositories provide their services to the security holder(s) through their agents called Depository Participants (DPs). The appointment of DPs is subject to the conditions prescribed under SEBI (Depositories and Participants) Regulations, 2018 and other applicable conditions.

Fungibility: In the depository system, the securities in dematerialised form are not identified by distinctive numbers and certificate numbers as in the physical environment. Thus all securities in the same class are identical with each other and are interchangeable. For example, all equity shares in the class of fully paid up shares are interchangeable.

Registered Owner/ Beneficial Owner: In the depository system, the ownership of securities dematerialised is vested in the security holder. The depository is recorded as a Registered Owner in the books of the Issuer and in the records of the depository, the security holder is recorded as the Beneficial Owner (BO). The BO is so called because he is entitled to the benefits arising out of such securities. However, the ownership rights and liabilities rests with the Beneficial Owner. All the rights, duties and liabilities underlying the security belong to the Beneficial Owner.

Free Transferability of shares: Transfer of shares held in dematerialised form takes place freely through an electronic book-entry system. This is maintained and operated by the two Depositories viz. NSDL and CDSL, who enable the transfer of securities among the individual depository (demat) account holders.

2.1.2 Institutional Structure of the Depository System in India

There are several institutions, which facilitate the smooth functioning of the depository system. They enable the issuers of securities to interact with the investors in the primary as well as the secondary market. These institutions are:

a) Depositories
b) Stock Exchanges,
c) Clearing Corporations,
d) Depository Participants (DPs),
e) Issuers, and
f) Registrars and Transfer Agents (RT&As)

The role of each institution mentioned here and the inter-linkages would be discussed in depth in the subsequent chapters of this workbook to have a correct and holistic perspective about functioning of the depository system.

2.2 What is a Depository?

The Depositories Act **defines a depository** to mean "*a company formed and registered under the Companies Act, 1956 and which has been granted a certificate of registration under sub-section (IA) of section 12 of the Securities and Exchange Board of India Act, 1992.*" The principal function of a depository is to provide a facility for investors to hold and transfer securities in dematerialised form and in book-entry form. The securities are transferred by debiting the transferor's depository account and crediting the transferee's depository account.

As per the Bank for International Settlements (BIS), depository is "a facility for holding securities which enables securities transactions to be processed by book entry. Physical securities may be immobilised by the depository or securities may be dematerialised (so that they exist only as electronic records)". In India, we have adopted the system of dematerialization, as against immobilization [1] which is practiced in some foreign countries.

In simple terms, depository is an organisation where securities of an investor are held and transferred in electronic form.

[1] Means a process by which physical securities are held in a licensed central depository for the account of the beneficial owners of such securities and such immobilized securities can either be transferred by electronic or book entries on the records of a licensed central depository.

2.3 Legal Framework

The operations of depositories in India are regulated primarily under the following legal framework:

- The Depositories Act, 1996
- SEBI (Depositories and Participants) Regulations, 2018
- Bye-laws of Depository approved by SEBI,
- Operating Instructions of the depository, and
- Prevention of Money Laundering Act, 2002

2.3.1 Depositories Act, 1996

The Depositories Act enables the setting up of multiple depositories in the country. This was to ensure that there is competition in the depository services and more than one depository is in operation. The Depositories Act facilitated the establishment of the two depositories in India viz., National Securities Depository Limited (NSDL)[2] and Central Depository Services (India) Limited (CDSL)[3].

The Depositories Act, 1996, ushered in an era of efficient capital market infrastructure, improved investor protection, reduced risks, and increased transparency of transactions in the securities market. It also immensely benefitted the issuer companies, in terms of reduced costs and the effort used in managing their shareholder populace. Due to the introduction of the depository system, the investors are able to enjoy many benefits like free and instant transferability in a secured manner at lower costs, free from the problems like bad deliveries, odd-lots etc. Today the tradable lot is reduced to "one unit" which has enabled even a common man is to invest money in one equity share or bond or debenture. Investors are also spared from the problems of preserving the securities held in physical form.

Only a company, which is registered under the relevant Companies Act (as amended) can set up a depository in India, subject to fulfilment of criteria as laid down by relevant regulations. Before commencing operations, depositories should obtain a certificate of registration and a certificate of commencement of business from SEBI. A depository established under the Depositories Act can provide any service connected with recording of allotment of securities or transfer of ownership of securities in the record of a depository. A depository however, cannot directly open accounts and provide services to clients. Any person willing to avail of the services of the depository can do so by opening a demat account through any Depository Participant (DP) of a

[2] NSDL is the first depository to be set up in India by well-known financial institutions such as IDBI, UTI and the National Stock Exchange of India Limited. Incorporated in December 12, 1995, it commenced operations on November 8, 1996.

[3] CDSL promoted by leading Indian banks and Bombay Stock Exchange (erstwhile The Stock Exchange, Mumbai) was registered in February 1999. It commenced operation on March 22, 1999.

Depository and need to acknowledge the 'Rights and Obligation Document' provided by the Depository Participant[4]. The rights and obligations of depositories, depository participants, issuers and beneficial owners are spelt out clearly in this Act, SEBI (Depositories and Participants) Regulations, 2018 and the Bye-laws of the Depository.

Who is a Depository Participant?

A Depository Participant (DP) is described as an agent of the depository and is a registered entity with SEBI under section 12(1A) of the SEBI Act 1992. They are the intermediaries between the depository and the investors. The relationship between the DPs and the depository is governed by an agreement made between the two under the Depositories Act, 1996, SEBI [Depositories and Participants] Regulations, 2018 and the Bye laws of the Depository. In a strictly legal sense, a DP is an entity who is registered as such with SEBI under the provisions of the SEBI Act. As per the provisions of this Act, a DP can offer depository related services only after obtaining a certificate of registration from SEBI.

2.3.2 Eligibility Criteria for a Depository

A Depository company must have a minimum net worth of Rs. 100 crore and satisfy all the other criteria as prescribed under the SEBI Act 1996 and the SEBI (Depository and Participants) Regulations 2018 specified by SEBI including but not limited to automatic data processing systems, network through which continuous electronic means of communication being established, adequate infrastructure requirements. Ownership of a depository and shareholding in a depository is as per the SEBI (Depositories & Participant) Regulations, 2018.

2.3.3 Registration of a Depository

As per the provisions of the SEBI Act, a depository can deal in securities only after getting a certificate of registration from SEBI. On being satisfied with the eligibility parameters of a company to act as a depository, SEBI may grant a certificate of registration subject to certain conditions.

2.3.4 Commencement of Business

A depository that has got certificate of registration can act and function as a Depository only if it obtains a certificate of commencement of business from SEBI. For this, it must apply to SEBI within one year from the date of receiving the certificate of registration. SEBI Board grants a certificate of commencement of business if it is satisfied that the depository has adequate systems and safeguards to prevent manipulation of records and transactions. SEBI takes into account all matters relevant to the efficient and orderly functioning of the depository, particularly in examining, that the:

[4] The term Beneficial Owner-Depository Participant Agreements has been replaced with a common document "Rights and Obligations of the Beneficial Owner and Depository Participant" vide SEBI Circular Ref. No. MIRSD/12/2013, dated 4-12-2013.

1. Depository has a net worth of not less than Rs. 100 crore;
2. Bye-Laws of the depository have been approved by Board of SEBI;
3. Automatic data processing systems of the depository have been protected against unauthorised access, alteration, destruction, disclosure or dissemination of records and data;
4. Network through which continuous electronic means of communication are established between the depository, participants, issuers and issuers' agents, is secure against unauthorised entry or access;
5. Depository has established standard transmission and encryption formats for electronic communication of data between the depository, participants, issuers and issuers' agents;
6. Physical or electronic access to the premises, facilities, automatic data processing systems, data storage sites and facilities including back-up sites, and to the electronic data communication network connecting the DPs, issuers and issuers' agents is controlled, monitored and recorded;
7. Depository has a detailed operational manual explaining all aspects of its functioning, including the interface and method of transmission of information between the depository, issuers, issuers' agents, DPs and beneficial owners;
8. Depository has established adequate procedures and facilities to ensure that its records are protected against loss or destruction and arrangements have been made for maintaining back-up facilities at a location different from that of the depository;
9. Depository has made adequate arrangements including insurance for indemnifying the beneficial owners for any loss that may be caused to such beneficial owners by the wrongful act, negligence or default of the depository or its participants or of any employee of the depository or participant; and
10. Granting of certificate of commencement of business is in the interest of investors in securities market.
11. The Board shall, before granting a certificate of commencement of business under this Chapter make a physical verification of the infrastructure facilities and systems established by the depository.

2.3.5 Rights and Obligations of Depositories

Depositories have the rights and obligations conferred upon them under the Depositories Act, the regulations made under the Depositories Act, Bye-Laws approved by SEBI, and the agreements made with the participants, issuers and their R&T agents.

- Every depository must have adequate mechanisms for reviewing, monitoring and evaluating the depository's controls, systems, procedures and safeguards. It should conduct an annual inspection of these procedures and forward a copy of the inspection report to SEBI.
- The depository is also required to ensure that the integrity of the automatic data processing systems is maintained at all times and take all precautions necessary to ensure that the records are not lost, destroyed or tampered with. In the event of loss or destruction, sufficient back up of records should be available at a different place.
- The depository should take adequate measures including insurance, to protect the interests of the beneficial owners against various types of risks.
- Every depository is required to extend all such co-operation to the beneficial owners, issuers and issuer's agents, custodians of securities, other depositories and clearing organisations, as necessary for an effective, prompt and accurate clearance and settlement of securities transactions and conduct of business.
- The depository should indemnify beneficial owners of securities for any loss caused to them due to the negligence of the DP. Where the loss however, is caused due to the negligence of a DP, the depository shall have the right to recover it from such DPs.

2.3.6 Bye-Laws

A depository is required to make Bye-Laws governing its operations. The Bye-Laws have to be in conformity with the Depositories Act and the regulations made thereunder, and need to be approved by SEBI before becoming effective.

2.3.7 Records to be maintained by Depository

Every depository is required by SEBI regulations to maintain the below mentioned records and documents for a minimum period of eight years. The PMLA, 2002 also requires the documents to be maintained for a period of 5 years.[5]

- Records of securities dematerialised and rematerialised.
- The names of the transferor, transferee, and the dates of transfer of securities.
- A register and an index of beneficial owners.
- Details of the holdings of the securities of beneficial owners as at the end of each day.
- Records of instructions received from, and sent to, participants, issuers, issuers' agents and beneficial owners.
- Records of approval, notice, entry and cancellation of pledge or hypothecation.
- Details of participants.

[5]The period of maintaining the documents as per the PMLA have been reduced from 10 years to 5 years vide Gazette notification dated January 04, 2013.

- Details of securities declared to be eligible for dematerialisation in the depository.
- Such other records as may be specified by SEBI for carrying on the activities as a depository.

Every depository shall intimate SEBI the place where the records and documents are maintained and subject to the provisions of any other law the depository shall preserve records and documents for a minimum period of eight years.

In addition to the above, a depository being a company incorporated under the provisions of the Companies Act, whether listed or unlisted shall also comply with the provisions of Companies Act for maintaining certain registers as indicated here in below:

Sr. No.	Relevant Section & Rules	Register
1.	Section 88 (1) and Rule 3 (1) of the Companies (Management and Administration) Rules, 2014	**MGT-1**: Register of Members
2.	Section 88 (1) and Rule 4 of the Companies (Management and Administration) Rules, 2014	**MGT-2**: Register of Debenture holders
3.	Section 88 (2) and Rule 6 of the Companies (Management and Administration) Rules, 2014	**Index of Members**
4.	Section 88 (2)	**Index of Debenture Holders**
5.	Section 88(3)	**Register and Index of Beneficial Owner**
6.	Section 88(4) and Rule 7 of the Companies (Management and Administration) Rules, 2014	**MGT-3:** Foreign Register of Members, Debenture holders, other security holders or beneficial owners residing outside India
7.	Rule 6 of the Companies (Share Capital and Debentures) Rules, 2014	**Form SH-2:** Register of Renewed and Duplicate Share Certificate
8.	Section 54 and Rule 8 (14) of the Companies (Share Capital and Debentures) Rules, 2014	**Form SH-3:** Register of Sweat Equity Shares
9.	Section 62 and Rule 12 (10)	**Form SH-6:** Register of Employee Stock Options

10.	Section 68 and Rule 17 (12) of the Companies (Share Capital and Debentures) Rules, 2014	**Form SH-10:** Register of Shares or Securities Bought Back
11.	Section 170(1) and Rule 17 of the Companies (Appointment and Qualification of Directors) Rules, 2014	**Register of Directors and KMPs**
12.	Section 73 and Rule 14 of the Companies (Acceptance of Deposits) Rules, 2014	**Register of Deposits**
13.	Section 85 and Rule 7 of the Companies (Registration of Charges) Rules, 2014	**Form CH-7:** Register of Charges
14.	Section 186 and Rule 12 of the Companies (Meeting of Board and its Powers) Rules, 2014	**Form MBP-2:** Register of Loans/Guarantee/Security and Acquisition by Company
15.	Section 187 and Rule 14 of the Companies (Meeting of Board and its Powers) Rules, 2014	**Form MBP-3:** Register of Investments not held in its own name
16.	Section 189 and Rule 16 of the Companies (Meeting of Board and its Powers) Rules, 2014	**Form MBP-4:** Register of Contracts or Arrangements in which Directors are interested

2.4 Functions of a Depository

a. ***Facilitating Account Opening / Modification /Closure***: An investor wishing to avail depository services must first open an account with a depository participant registered with a depository. The process of opening a demat account is very similar to that of a bank account. An investor has the option of opening an account with several DPs or opening several accounts with a single DP. The investor while opening the account has to sign and submit an account opening form and acknowledgement of the receipt of the copy of the Rights and Obligation document to the DP. The form and contents of the Rights and Obligation document are specified by SEBI.

b. ***Facilitating Dematerialisation***: One of the primary functions of a depository is to eliminate or minimise the movement of physical securities in the market. This is achieved through dematerialisation of securities. Dematerialisation is the process of converting securities held in physical form into holdings in book entry form.

c. ***Facilitating Account Transfer***: The depository gives effects to all transfers resulting from the settlement of trades and other transactions between various beneficial owners by recording entries in the accounts of such beneficial owners.

d. ***Facilitating Transfer and Registration***: A transfer is the legal change of ownership of a security in the records of the issuer. For effecting a transfer, certain legal steps have to be taken like endorsement, execution of a transfer instrument and payment of stamp duty. The depository accelerates the transfer process by registering the ownership of shares in the name of the depository. Under a depository system, transfer of security occurs merely by passing book entries in the records of the depositories, on the instructions of the beneficial owners.

e. ***Corporate Actions***: A depository may handle corporate actions in two ways. In the first case, it merely provides information to the issuer about the persons entitled to receive the corporate benefits. In the other case, depository itself takes the responsibility of distribution of corporate benefits.

f. ***Facilitating Pledge and Hypothecation***: The securities held with the depository may be used as collateral to secure loans and other credits by the clients. Use of depository services for pledging/ hypothecating the securities makes the process very simple and cost effective. The securities pledged/hypothecated are transferred to a segregated or collateral account through book entries in the records of NSDL. In case of CDSL, the securities pledged/hypothecated are not transferred to a segregated or collateral account through book entries in their records. The pledged/ hypothecated securities continue to lie in the depository account of the BO (Pledgor/Hypothecator), until invocation or closure of pledge/hypothecation.

g. ***Linkages with Clearing System***: The clearing system performs the functions of ascertaining the pay-in (sell) or pay-out (buy) of brokers who have traded on the stock exchange. Actual delivery of securities to the clearing system from the selling brokers and delivery of securities from the clearing system to the buying broker is done by the depository. To achieve this, depositories and the clearing system should be electronically linked.

Apart from the above listed functions the existing two depositories in India perform a variety of other functions such as providing nomination and transmission facility to the investors, IPO related facility, etc.

Review Questions

Questions to assess your learning:

1. With the introduction of depository system in India theft, forgery, mutilation of certificates became more prominent.

(a) True
(b) False

2. During the time when there was no demat of securities, for transfer of securities, _____ was evidence of change of ownership.

(a) Endorsement of physical security
(b) Proof of Delivery
(c) Letter of acknowledgement from the transferee

3. Depositories merely provide information to the issuer about the persons entitled to receive the corporate benefits and does not in any case take up the responsibility of distribution of corporate benefits. State True or False?

(a) True
(b) False

4. A Depository Participant has to be registered with

(a) Depository
(b) Exchanges
(c) SEBI
(d) None of the above

Chapter 3: Depository and its Business Partners

Learning Objectives:

After studying this chapter, you should know about the following business partners of a depository and their roles and responsibilities:

- Depository Participants
- Clearing Corporation / Clearing House
- Issuers and RTAs

3.1 Depository Participants

Under the Depositories Act, 1996, a Depository Participant (DP) is described as an agent of the depository. A DP is an entity who is registered as such with SEBI under the provisions of the SEBI (Depositories & Participants) Regulations, 2018. As per the provisions of these regulations, an entity can offer depository-related services only after obtaining a certificate of registration from SEBI as a depository participant. These regulations also define the eligibility criteria for registration with SEBI as a depository participant.

The relationship between the DPs and the depositories is governed by an agreement made between the two under the Depositories Act. The form of the agreement is specified in the Bye-Laws of the depository.

3.1.1 Eligibility Criteria for becoming Depository Participants

The eligibility criteria to become DPs have been prescribed by the SEBI (Depository & Participants) Regulations, 2018 and the Bye-Laws of depositories. The DPs have to comply with the bye laws of the respective depositories, for which membership is sought.

***Basic Eligibility*:** Persons belonging to one of the following categories are eligible to become a DP:

1. A public financial institution as defined in section 2(72) of the Companies Act 2013.
2. A bank included for the time being in the Second Schedule to the Reserve Bank of India Act, 1934.
3. A foreign bank operating in India with approval of the Reserve Bank of India.
4. A State Financial Corporation established under the provisions of section 3 of the State Financial Corporations Act, 1951.

5. An institution engaged in providing financial services, promoted jointly or severally by any of the institutions mentioned in the four above-mentioned clauses.
6. A custodian of securities who has been granted a certificate of registration by SEBI.
7. A clearing corporation or a clearing house of a stock exchange.
8. A stockbroker who has been granted a certificate of registration by SEBI.
9. A non-banking finance company.
10. An R&T Agent who has been granted a certificate of registration by SEBI.

Net Worth: SEBI (Depositories & Participants) Regulations, 2018 prescribe a minimum net worth criteria for different kind of applicants:
Applicants who are stock brokers are required to have a networth of Rs. 3 crores {within one year of the date of notification of the SEBI (Depositories and Participants) (Amendment) Regulations, 2022}, which shall be increased to Rs. 5 crores {within two years of the date of notification of the SEBI (Depositories and Participants) (Amendment) Regulations, 2022}. Non-Banking Finance Companies (NBFC), shall have the net worth of Rs. 50 lakh, for acting Participant only on behalf of itself.

- However, NSDL has prescribed that stockbrokers have a minimum net worth of Rs. 3 crore. The Stockbroker with net worth lower than Rs.3 crores but higher than Rs.1 crore can become a Limited Participant of the Depository with the restrictions on business and/or for limited period as decided by Depository. CDSL on the other hand has prescribed a minimum Net worth of Rs. 5 crores for Stock brokers.
- For R & T Agents a minimum net worth of Rs. 10 crore is prescribed.
- If a stockbroker seeks to act as a DP in more than one depository, he should comply with the specified net worth criterion separately for each such depository.
- If an NBFC seeks to act as a DP on behalf of any other person, it needs to have a networth of Rs. 50 crore in addition to the networth specified by any other authority.

No minimum net worth criterion has been prescribed for other categories of DPs. Depositories however, can fix a higher net worth criterion for their DPs. As per the Bye-laws of the Depositories, an applicant has to submit a net worth certificate certified by a chartered accountant (which includes the computation of networth). The certificate, based on the audited books of account, should be in the format as specified by the depository in its Bye-Laws/Business Rules.

3.1.3 Application for becoming a DP

An entity desirous of becoming a DP of a depository should make an application to SEBI through the Depository. The application complete in all respects should be submitted to the Depository in which membership is sought for. The Depository evaluates the application and if it finds that the applicant has the potential to be admitted as a DP, then it forwards that application to SEBI,

within 30 days from the date of receipt of the application. Along with the application, the depository also submits its recommendations regarding the applicant.

The applicant at this stage is required to pay SEBI application fees. The depository may reject the application, if it is found to be incomplete or not as per the given instructions. SEBI may require the applicant or the depository to furnish additional information or clarification, appropriate for considering the application. If the application form is found incomplete, SEBI may also reject the application after giving an opportunity to the applicant for addressing the objection(s).

3.1.4 Conditions for Grant of Registration

On being satisfied that the applicant is eligible and has complied with the conditions stipulated in the SEBI (D&P) Regulations, SEBI grants a registration certificate to the applicant. Before granting a certificate of registration to a DP, SEBI considers, inter alia, whether the applicant has adequate infrastructure and systems. It also takes into account whether it has in place the safeguards and trained staff to carry on activity as a DP and the applicant is a fit and proper person. Grant of registration is also subject to the condition that the Participant shall redress the grievance of beneficial owners within thirty days of the date of receipt of the complaint and keep the depository informed about the number and nature of redress. Finally, SEBI also examines whether the grant of certificate of registration to such a person is in the interests of investors in the securities market.

The Depositories in its Bye-laws have also prescribed the following additional conditions for admission of DPs to its system.

1. The applicant should furnish information and details of its business history.
2. The applicant should not have been convicted in any of the five years immediately preceding the filing of the application in any matter involving misappropriation of funds and securities, theft, embezzlement of funds, fraudulent conversion or forgery.
3. The applicant should not have been expelled, barred or suspended by SEBI, self-regulatory organisation or any recognised stock exchange. However, if three years or more have elapsed since the punishment, the depository may, at its discretion, consider such an application.
4. The applicant should furnish details of its Board of Directors/ authorised officials, who would be responsible for the conduct of the business of the applicant as a participant.
5. The depository may conduct training programs and/or interviews, to examine the knowledge of the DP (and its staff) related to the operational, functional and technical aspects of the depository. The applicant shall be mandated to appoint a Compliance Officer, who would interact with the depository and on the DP's behalf for compliance with the Bye-Laws and Business Rules and resolving investors/clients' grievances.

6. The applicant should have adequate office space exclusively for depository operations. The applicant should also furnish details of his main office, including address, fax and phone number(s). The depository has the sole discretion to decide whether the applicant has adequate infrastructure facilities at the time of granting admission. For the purpose of satisfying itself regarding the applicants' eligibility, the depository may carry out an inspection of their office and facilities.
7. The applicant should make adequate arrangements for conducting effective and safe depository operations. These should include security measures, risk containment and insurance requirements, as specified by the depository.

3.1.5 Validity of Registration Certificate

A certificate of registration is valid unless it is suspended or cancelled by the Board. The DP, to keep the registration in force, shall pay registration fee as specified in the SEBI (Depositories and Participants) Regulations, for every five years from the sixth year of the date of grant of certificate of registration or of the date of grant of certificate of initial registration. The specified fee shall be paid one month prior to the expiry of the block for which the fee has been paid.

3.1.6 Commencement of Operations

A DP can commence its operations after complying with the prescribed procedures of the depository for commencing business operations. Depositories have specified following pre-requisites for DPs for commencing operations:

1. Make an application to the depository through prescribed form. Furnish all clarifications and additional documents as may be required by the depository. The depository shall intimate the DP about the application status.
2. On receiving the approval, an application for connectivity with the depository should be made. Primary connectivity can be by way of V-sat, leased line or internet. Full-scale connectivity by way of PSTN line, dial up lines also has to be arranged as a fall back if the primary connectivity fails.
3. At least one officer of the applicant has to successfully complete the in-depth training conducted by depository.
4. Procure the prescribed hardware and communicate to the depository about the details of the hardware installed. The depository then conducts a pilot test to train the staff on the functions of the depository and to check the systems. The DP also has to participate in the pilot test.
5. The applicant has to enter into an agreement (format prescribed by Bye Laws of depositories) with the depository.

6. The application system of the depository has to be activated in the live environment in the office of the DP. A DP - ID is issued to the DP.
7. The DP can start functioning.

3.1.7 Rights and Obligations

The DP must provide a copy of the Rights and Obligations document to the client and keep an acknowledgement of the same on record before acting as a Participant on his behalf. A DP, while conducting any business with a client, acts as an agent of the depository and is liable to the clients for all the acts and deeds performed by it. The Rights and Obligations document has to be made in the form and manner specified by SEBI and the DP Operating Instructions. A copy of the same should be given to the beneficial owner. However, no Rights and Obligations document is required in respect of the following:

a. A Foreign Portfolio Investor (FPI) registered with SEBI enters into an agreement with the DP either directly or through its power of attorney. Such agreement gives the DP an authority to act on behalf of the FPI for availing the services of the depository and such agreement has already been filed with SEBI.
b. International Multilateral Agency, who has entered into an agreement with the DP under Regulation 17 of the SEBI (Custodian of Securities) Regulations 1996, and such agreement states that the Custodian will also act as a DP and all provisions pertaining to DP shall be applicable.

Separate Accounts: The DP should open a separate account in the name of each beneficial owner. The securities of each BO should be segregated from the securities of other beneficial owners or from the DP's own securities. For DP's own securities, he should open a separate account in the depository system.

Client/Beneficial Owner Instructions: Securities should be transferred to or from a BO's account only on receipt of instructions from the beneficial owner. No entry in the beneficial owner's account should be made unless it is supported by instructions received from the beneficial owner as per the agreement made with him.

Transaction Statements – SEBI has vide its Circular No. CIR/MRD/DP/31/2014 dated November 12, 2014 notified the requirement to issue a Consolidated Account Statement (CAS) to enable a single consolidated view of all the investments of an investor in mutual funds and securities held in demat form with the Depositories. The Depository may directly send statement of account including transaction statement and holdings statement to Clients. and in such cases Participants are not required to send such statement of account as per Rule 14.3.1, 14.3.2, 14.3.3 and Rights and Obligations Document. Provided that whenever the Client requests for such a statement, the

Participant shall be duty bound to provide the same. However, the statements in respect of Clearing Member (CM) accounts will not be sent by the NSDL and the Participant may continue sending such statements to CMs.

The frequency of sending the CAS is as follows:

1. 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 those investors who have opted for delivery via electronic mode (e-CAS) by the twelfth (12th) day from the month end and to investors that have opted for delivery via physical mode by the fifteenth (15th) day from the month end.
2. 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 in SEBI circular no. CIR/MRD/DP/21/2014 issued on July 01, 2014.
3. 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 in partial modification of clauses 5(b) and 6(c) of the circular no. CIR/MRD/DP/22/2012 dated August 27, 2012.
4. Multilingual CAS: CDSL has introduced a Multilingual Consolidated Account Statement (CAS) to enhance investor experience and accessibility. This initiative aims to cater to the diverse linguistic needs of investors across India, promoting inclusivity and better understanding of financial statements. The Multilingual CAS is available in multiple Indian languages. This move is especially beneficial for retail investors in rural and semi-urban areas.

SEBI permits the DP's to provide transaction statements and other documents to the BOs under Digital Signature, as governed under Information Technology Act, 2000, subject to entering into legally enforceable arrangement with the BOs for the said purpose. Providing of transaction statements and other documents in the aforesaid manner would be deemed to be in compliance with the SEBI (Depositories & Participants) Regulations, 2018.

Connectivity: Every depository shall maintain continuous electronic means of communication with all its participants, issuers or issuers' agents, as the case may be, clearing corporations of the stock exchanges and with other depositories.

DP's are required to maintain a designated website which brings in transparency and helps the investors to keep themselves well informed about the various activities of the DP. Considering

the advancement in technology and need to provide better services to the investors, all DPs are mandatorily required to maintain a designated website.[6]

Monitoring, Reviewing and Evaluating Internal Systems and Controls: The DP should have an adequate mechanism for the purposes of reviewing, monitoring and evaluating its internal systems and accounting controls. As per the Bye-Laws, a DP has to get an internal audit done of the depository operations on a half-yearly basis by a practicing chartered accountant or a company secretary or a cost accountant.

Surveillance Policy: In order to further strengthen the surveillance framework for the Securities Market, NSDL has advised its DPs to put in place a Surveillance Policy based on the nature of their Depository business, type of clients, number of transactions etc. to generate appropriate surveillance alerts at their end, to enable them to effectively monitor the transactions of their clients as per the laid down surveillance policy.

Reconciliation: The DP should reconcile its records with its depository on a daily basis. The depository system is designed to do this reconciliation automatically every day at the end of the day (EOD).

Returns: The DP should submit periodic returns to SEBI and to every depository in which it is a Participant in the format specified by SEBI or the Bye-Laws of the depository. The following returns are required to be submitted by its DPs:

Sr. No	**Particulars**	**NSDL Deadline**
1	Investor Grievance Report (Monthly)	By 10th of the following month.
2	Compliance Certificate (July - January)	January & July 31st every year
3	Charge Structure	April 30th every year
4	Internal/ Concurrent Audit Report (April - October)	May & November 15th every year
5	Networth Certificate and Audited Financial Statements	September 30th every year.
6	Risk Assessment (April –October)	October 31st & April 30th every year

[6] SEBI circular Ref. No. SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/30 dated February 15, 2023.

7	Artificial Intelligence /Machine Learning Reporting Form (if offering or using such technologies as defined)	Quarterly - By 15th of the following month
8	Cyber Security & Cyber Resilience framework of Depository Participants	Quarterly - By 15th of the following month

Sr. No	**Particulars**	**CDSL Deadline**
1	Investor Grievance Report (Monthly)	By 10th of the following month
2	Charge Structure	**Yearly -** On or before 30th April every year or as and when tariff structure is revised
3	Internal/ Concurrent Audit Report (October - March)	By 15th May to submit IAR-March (Period 1st October to 31st March) By 15th November to submit IAR-September (1st April to 30th September)
4	Networth Certificate and Audited Financial Statements	October 31st every year
5	Internal/ Concurrent Audit Report (April - September)	November 15th every year
6	Compliance report for Internal audit/ Inspection	Within 30 days
7	Change in Compliance officer details	Immediately
8	Change in registered office / operational address	Immediately
9	Proposed change in constitution / status of DP	Immediately

10	Proposed change in control of DP	Immediately
11	Change in name of DP	Immediately
12	Compliance certificate	Before 31st July for the half year period from January to June & 31st January for the half year period from July to December
13	Risk Assessment Template	Within 30 days from the end of the half year i.e. 31st March and 30th September
14	Change in Directors	Immediately
15	Change in shareholding pattern	Immediately
16	Uploading of Scanned DIS in CDAS	The DP should scan DIS and store in a file by the end of next working day after it is entered in the depository system by the Main DP/Live connected Branch DP.
17	Placing of CDSL Inspection report / SEBI Inspection report /Internal audit report with the rectification before the Board of Directors of the Company	DP should place the reports along with action taken report before the Board of Directors in the Board meeting of the company

DP to Indemnify Depository: A DP has to indemnify the depository, its officers and employees for all costs, fees, expenses, liabilities, taxes, actual losses and damages of any nature whatsoever suffered or incurred by any of them for:

1. The failure by the DP to comply with the provision of the Bye-Laws or the DP agreement or to comply with any directions or procedures of the depository.
2. The acts by the depository or its officers and employees placing reliance upon instructions or communications by the DP. These include giving effect to instructions or

communications by any of them or the failure of the DP to give instructions to the depository as contemplated in the Bye-Laws.

3. The acceptance by the depository of eligible securities deposited by the DP and effecting transactions by the depository according to the Bye-Laws and withdrawal of eligible securities by the DP.
4. The failure of the DP to deliver eligible securities or to perform other duties or obligations set out in the Bye-Laws.

Prohibition of Assignment: No DP can assign or delegate its functions as a depository participant to any other person without prior approval of the depository in which it is a participant. All the DPs are required to provide the details of all places from where they are offering any of the depository services to their Clients whether it is about the depository system set-up, head office, main office, branch, franchisee, service centre, collection centre, drop box centre or by any other name and any further updates (addition/deletion/modification) in the information to the depository within seven days of the change.

Insurance: DPs should take appropriate insurance cover to insure against the losses arising from any possible business risk and system failure. The depository, however takes insurance for itself and on behalf of all DPs. The insurance covers business risk and system failure risk. DPs may additionally take for themselves insurance to cover risks like theft, fire, etc.

Record of Services: The DP should maintain and preserve the following records and documents for a minimum period of 8 years as per provisions given in the SEBI (Depositories and Participants) Regulation, 2018 and PMLA and the Rules made thereunder. They should also make them available for inspection by the depository whenever required.

1. Records of all the transactions entered into with a depository and with a beneficial owner;
2. Details of securities dematerialised, rematerialised on behalf of beneficial owners with whom it has entered into an agreement;
3. Records of instructions received from beneficial owners and statements of account provided to beneficial owners;
4. Records of approval, notice, entry and cancellation of pledge or hypothecation, as the case may be;
5. Records of all the actions taken on the exception reports generated by the system;
6. Details of grievances/arbitration proceedings received from the clients, action taken and status of the same;

If a DP has entered into an agreement with more than one depository, the records specified above should be maintained separately for each such depository.

DP's to ensure adherence to guidelines on Anti Money Laundering Measures-The Prevention of Money Laundering Act 2002 (PMLA) has come into effect from 1st July, 2005. As per the provisions of the Act, every banking company, financial institution (which includes chit fund company, a co-operative bank, a housing finance institution and a non-banking financial company) and intermediary (which includes a stock-broker, share transfer agent, banker to an issue, trustee to a trust deed, registrar to an issue, merchant banker, underwriter, portfolio manager, investment adviser and any other intermediary associated with securities market and registered under section 12 of the SEBI Act, 1992) shall have to maintain a record of all the transactions; the nature and value of which has been prescribed in the Rules under the PMLA.
Such transactions include-

- All cash transactions of the value of more than Rs 10 lakhs or its equivalent in foreign currency.
- All series of cash transactions integrally connected to each other which have been valued below Rs 10 lakhs or its equivalent in foreign currency where such series of transactions take place within one calendar month.
- All suspicious transactions whether or not made in cash.

Broadly, the guidelines on Anti Money Laundering (AML) measures are as given below-

1. Participants are to evolve their own guidelines (if not already evolved) so as to comply with the provisions of the PMLA and the rules, guidelines thereof issued by Government of India (GOI)/SEBI, from time to time.
2. Participants to put in place proper policy framework on AML measures in compliance with relevant laws, rules and instructions.
3. AML procedures should include inter alia, the following three specific parameters which are related to the overall 'Client Due Diligence Process':
    a. Policy for acceptance of clients
    b. Procedure for identifying the clients
    c. Transaction monitoring and reporting especially Suspicious Transactions Reporting (STR).
4. Each Participant should appoint a senior management executive to be designated as the Principal Officer, if it has not already done so. The Principal Officer shall be located at the head/corporate office of the Participant and shall be responsible for monitoring and reporting of all transactions and sharing of information as required under the law. He will maintain close liaison with the other divisions / departments of the Participant, the other Participant, the enforcement agencies and other institutions which are involved in similar activities. In addition to the existing requirement of designation of a Principal Officer, the registered intermediaries shall also designate a person as a 'Designated Director'. In terms of Rule 2 (ba) of the PML Rules, the definition of a Designated Director reads as under:

"Designated Director means a person designated by the reporting entity to ensure overall compliance with the obligations imposed under chapter IV of the Act and the Rules and includes -

- the Managing Director or a Whole-time Director duly authorized by the Board of Directors if the reporting entity is a company,
- the managing partner if the reporting entity is a partnership firm,
- the proprietor if the reporting entity is a proprietorship concern,
- the managing trustee if the reporting entity is a trust,
- a person or individual, as the case may be, who controls and manages the affairs of the reporting entity if the reporting entity is an unincorporated association or a body of individuals, and
- such other person or class of persons as may be notified by the Government if the reporting entity does not fall in any of the categories above."

In terms of Section 13 (2) of the PML Act (as amended by the Prevention of Money-laundering (Amendment) Act, 2012), the Director, FIU-IND can take appropriate action, including levying monetary penalty, on the Designated Director for failure of the intermediary to comply with any of its AML/CFT obligations. Registered intermediaries shall communicate the details of the Designated Director, such as, name, designation and address to the Office of the Director, FIU-IND.

5. Monitoring and Reporting to Financial Intelligence Unit-India
6. Participants are required to report information relating to suspicious transactions, in the prescribed format, within seven working days of establishment of suspicion, to the Director, Financial Intelligence Unit-India (FIU-IND) at the following address:

   Director, FIU-IND,
   Financial Intelligence Unit-India,
   6th Floor, Hotel Samrat,
   Chanakyapuri, New Delhi-110021.

Participants are required to report to the depository number of suspicious transaction reports, if any, filed directly with FIU-IND during a given month by 7th of the following month.

Maintenance and Preservation of records

a. Participants should take appropriate steps to evolve an internal mechanism for proper maintenance and preservation of relevant records and information in a manner that allows easy and quick retrieval of data as and when requested by the competent authorities. Further, the records have to be maintained and preserved for a period eight years from the date of cessation of the transactions between the Client and Participant.

b. Participants should formulate and implement the client identification program containing the requirements as laid down and such other additional requirements that it considers appropriate. The records of the identity of clients have to be maintained and preserved for a period of eight years from the date of cessation of the transactions between the Client and Participant.
c. Participants should obtain a certification from their internal auditors that the concerned Participant has drawn up a policy on Anti Money Laundering Measures in compliance with the relevant laws, rules and instructions. In addition, in every quarterly report, the internal auditor must check and certify whether the Participant has complied with the Policy so drawn up. Any deficiencies should be specifically pointed out in the report.
d. The Compliance Officer of the Participant is required to submit a 'Compliance Certificate' in the prescribed format, at half-yearly intervals either separately or through Internal Audit Report as specified by the depository.
e. Participants should educate the Clients about the objectives of the KYC programme. The front desk staff needs to be specially trained to handle such situations while dealing with Clients.

Being a company incorporated under the provisions of the Companies Act, a depository Participant shall also comply with the relevant provisions of the Companies Act with respect to preservation of records and archiving of records. In addition to the above, as a listed entity a Depository participant shall also comply with the policies for such record maintenance and archiving under SEBI ((Listing Obligations and Disclosure Requirements) Regulations, 2015 (" SEBI LODR"). Few of the compliances in this regard are indicated here in below for the ready reference:

Records as per Companies Act, 2013		
Sr. No.	**Record Type**	**Preservation Period**
1.	Memorandum and Articles of Association	Permanent
2.	Certificate of Incorporation	Permanent
3.	Minutes of Board and Committee Meetings	Permanent
4.	Minutes of Shareholders' Meetings	Permanent
5.	Register and Index of Members	Permanent
6.	Resolutions passed by circulation	8 Financial Years
7.	Listing Agreement executed with the stock exchanges	Permanent
8.	Attendance Register – Board and Committee Meetings	8 Financial Years
9.	Register of investments in securities not held in the name of the Company	Permanent
10.	Register of renewed and duplicate certificates	Permanent
11.	Register of contracts in which Directors are interested	Permanent
12.	Register of Directors, Managing Director, Manager and Secretary	Permanent
13.	Register of Directors' Shareholding	Permanent
14.	Register of Inter-corporate loans and investments	Permanent
15.	Register of transfer of shares	Permanent
16.	Register of Transmission of shares	Permanent

17.	Forms filed with Registrar of Companies (ROC)	Permanent
18.	Notice and Agenda of the Board and Committee Meetings	8 Financial Years
19.	Notices pertaining to disclosure of Interest by the Directors	8 Financial Years
20.	Annual Returns	8 Financial Years
21.	Correspondence with shareholders	8 Financial Years
22.	Disclosures under SEBI – Substantial acquisition of shares and Takeovers, Regulations	8 Financial Years
23.	Disclosures under SEBI – Prohibition of Insider Trading Regulations	8 Financial Years
26.	Postal Ballot forms	8 Financial Years
27.	Scrutinizer's Reports on voting at General Meetings/ Postal Ballot	8 Financial Years
28.	Newspaper cuttings of notices of Board Meeting and Financial Results	8 Financial Years
29.	Investor meet presentations	8 Financial years

Accounts and Finance Records		
Sr. No.	**Record Type**	**Preservation Period**
1.	Annual Audited and Financial Statements	Permanent
2.	Books of Accounts, Ledgers & Vouchers	8 Financial Years
3.	Investment Records	8 Financial Years from the date of redemption
4.	Engagement letters from Auditors	8 Financial Years

Figure 1 CheckK for 24, 25

Tax Records		
Sr. No.	**Record Type**	**Preservation Period**
1.	Excise Returns, Income Tax Returns, Sales Tax/ VAT Returns, Service Tax Return.	8 Financial Years
2.	Documents, Challans and other details/correspondence related to Excise, Income Tax, Sales Tax/ VAT, Service tax	8 Financial Years

DP to Ensure Integrity and Back-up of Data: DPs who maintain electronic records should ensure the integrity of the data processing systems. All necessary precautions should be taken to ensure that the records are not lost, destroyed or tampered with. In the event of loss or destruction, sufficient back-up of records should be taken and made available at all times at a different place. In order to ensure this, the depositories have prescribed the following back-up policy for its DPs:

1. Business partners have to take back-ups every day without fail.
2. Two copies of back-ups have to be taken; one copy has to be preserved at a remote site away from the operations and another on the site itself.
3. The back-up on external memory devices should be preserved safely, well protected against fire, theft and manipulation.
4. If the DPs have large business volumes, they may install an additional back-up machine which helps them in continuing the business operation even if the main machine fails.

***Uniform Penalty* Structure**: The Depositories may impose a penalty (monetary /non-monetary) on the Participant for non-compliance of SEBI regulations and/or NSDL/CDSL instructions and byelaws.[7]

3.1.8 Suspension and Cancellation of Certificate

Suspension of Certificate

The certificate of registration granted to a DP may be suspended by SEBI if it is found that the DP has:

- contravened any of the provisions of the Depositories Act, the Bye-Laws, Agreements and SEBI (D&P) Regulations, 2018;
- failed to furnish any information relating to its activity as a DP required under the regulations;

[7] NSDL Circular NSDL/Policy/2022/062 dated April 29, 2022 and CDSL Circular dated April 2, 2022

- not furnished the information called for by SEBI under the provisions of the Depositories Act, 1996 or has furnished information which is false or misleading;
- not co-operated in any inspection or investigation or enquiry conducted by SEBI;
- has failed to comply with any direction of SEBI; or
- has failed to pay the annual fee as specified under the SEBI (D&P) Regulations, 2018.

Cancellation of Certificate

The certificate of registration granted to a DP may be cancelled by SEBI if it is found that:

- the DP is guilty of fraud, or has been convicted of an offence involving moral turpitude; or
- the DP has been guilty of repeated defaults specified for suspension of the registration.

3.1.9 Termination by Depository

Besides these regulatory provisions, each depository may have its own Bye-Laws for termination or suspension of its DPs.

Termination by DP

A DP may also choose to terminate its participation in the depository by giving a notice of not less than 30 days. On receipt of such notice, the depository may cease to provide any service or act for the DP. The depository should notify the DP, other participants, clients of the surrendering DP and SEBI within seven days of this action.

3.2 Clearing Corporation (CC)

Clearing Corporation is an entity responsible for clearing and settlement of trades done by clearing members on a recognised stock exchange. A Clearing Corporation of a stock exchange are admitted to the depository system for clearing and settlement of securities traded on their respective stock exchanges. For electronic settlement of securities in demat form, the concerned CC/CH of the stock exchange needs to have electronic connectivity with the depository.

A Clearing Corporation of a stock exchange may be admitted as a user on the depository after entering into an agreement with the depository as per the Bye-Laws of depository. A different agreement has to be drawn up if a clearing house of a stock exchange is not a legal counterparty to the trades on the exchange and the trade/settlement guarantee fund is held and managed by the exchange. A third type of agreement has to be entered into if the members/dealers of the exchange are not the clearing members of the Clearing House. A stock exchange may be admitted as a user on the depository, if it conducts the activity of clearing and settlement of trades and if it is not a legal counterparty to the trades thereon and holds and manages the trade/settlement guarantee fund. In that case, an agreement as laid down in Bye-Laws of has to be entered into.

The provisions of these agreements govern the rights and obligations of the depository, the clearing corporation or the clearing house of a stock exchange and the exchange, in respect of transactions entered into in pursuance of such agreements.

3.2.1 Admission Criteria

A clearing corporation of stock exchange can be admitted as a user on the depository, only if it fulfills the conditions laid down. These criteria are listed below:

1. The clearing corporation or a clearing house of a stock exchange has adequate hardware and software systems to interact with the depository as specified in the Business Rules;
2. The depository should be satisfied that the clearing corporation or a clearing house of a stock exchange operates in such a manner that it ensures payment against delivery or guarantees settlement;
3. The clearing corporation or a clearing house of a stock exchange undertakes to co-operate at all times to redress the grievances of clients and DPs in respect of its operation in relation to the depository;
4. The depository should be in the opinion that the clearing corporation or a clearing house of a stock exchange has the operational capability to provide the services relating to clearing and settlement of transactions pertaining to the securities admitted to the Depository to be held in dematerialised form.

A Clearing Corporation of a stock exchange shall not be permitted to open beneficiary accounts for clients, except where it has been permitted by RBI to offer Constituent SGL account facility to the investors.

3.3 Issuers and Registrar and Transfer Agents

The Depositories Act, 1996 gives option to investors to hold their securities either in physical form or in book entry form with the depository. Issuer of the security i.e. company may offer a facility to hold the securities issued by it in demat form by entering into an agreement with the depository. The issuers who intend to offer demat facility will have to first establish connectivity with the depository either directly or through a Registrar & Transfer Agent which in turn have connectivity with the depositories.

The following categories of securities are eligible for dematerialisation as per SEBI (Depositories & Participants) Regulations, 1996:

- shares, scrips, stocks, bonds, debentures, debenture stock or other marketable securities of a like nature in or of any incorporated company or other body corporate;
- units of mutual funds (MFs), units of InvITs, rights under collective investment schemes (CISs) and venture capital funds (VCFs), commercial paper (CP), certificates of deposit (CD),

securitised debt, money market instruments and government securities, unlisted securities shall also be similarly eligible for being held in dematerialised form in a depository.

3.3.1 Eligibility Criteria

All issuers of the aforementioned securities may make their securities available for dematerialisation upon fulfillment of certain criteria. The Executive Committee /Securities Committee (as it may be called by the depositories) of the depository determines the securities that are eligible for dematerialisation. Before dematerialisation commences, the Issuer or its R&T Agent, if any, has to comply with the following conditions:

- The Issuer and/or its R&T Agent undertake to co-operate at all times to redress the grievances of the client and the DP.
- The Issuer and/or its R&T Agent shall have adequate hardware and software systems to interact with Depository as specified from time to time in the Business Rules.
- The Issuer and its R&T Agent if any, have signed the tripartite agreement as per the Bye-Laws of the depository.

The above conditions are not applicable to securities issued by Central or State Government. The depositories may even refuse to accept the admission of securities of an issue as an eligible security or may remove the same from the list of eligible securities if –

- in the opinion of the depository, the Issuer or its R&T Agent does not have or has ceased to have the operational capability to provide services in respect of an issue of securities;
- the Issuer or its R&T Agent commits any breach to any terms and/or conditions of the agreement entered into with the depository;
- the Board of Directors of the depository or the Securities Committee (in case of CDSL), in its absolute discretion, is satisfied that circumstances exist which render it necessary in the interest of the investors to do so.

3.3.2 Rights and Obligations of Issuers and their R&T Agents

a. Each Issuer whose securities are admitted to the depository are required to represent and warrant in favour of the depository that such securities exist at the time of transfer of securities into the depository and thereafter. The Issuer also has to warrant that these securities are validly issued and that it is entitled or has full authority to transfer such securities into the Depository.
b. Every issuer has to provide timely information to the depository about various corporate actions. These include - book closure, record dates, dates for payment of interest or dividend, dates for the annual general meeting, dates of redemption of securities, dates

of conversion, dates of exercising warrants and such other information as may be specified by the Executive Committee of the depository from time to time.

c. The issuer and its R&T Agents have to reconcile with the records of the depository, the records in respect of balances of eligible securities with clients and confirm to all the Depositories, the total security balances both in physical as well as in electronic holdings in the books.

   In case where a State or the Central Government is the issuer, the depository reconciles the records of the dematerialised securities with the statement provided by the RBI on a daily basis. Every issuer or its R&T Agent shall issue the certificate of securities against receipt of the Rematerialisation Request Form (RRF) from the Client through the DP and on receipt of confirmed instructions from the Depository. The Issuer or its R&T Agent are required to furnish to the depository allotment details of all clients (allottees) who have opted for securities to be credited to their account in the electronic form. The depository electronically provides the details of the Clients (allottees) to the Issuer/R&T Agent as per the requirement of the Issuer. This clause however, does not apply for government securities.

d. The depository is responsible for the accuracy/correctness of all such information related to eligible securities intimated by it to the Issuer/R&T Agent. The Issuer/R&T Agent is responsible for the accuracy and correctness of all information furnished by it in the prescribed format to the depository.

3.3.3 The Main Features of the Tripartite Agreement

When the issuer (the company which has issued securities) or the investor opts to hold the securities in a demat form, the issuer enters into an agreement with the depository to enable the investors to dematerialise their securities. This kind of agreement is not necessary in cases, where the:

- Depository, is the issuer of securities, or;
- State or central government is the issuer (in case of government securities).

Where the issuer appoints a registrar to the issue or share transfer agent, the depository enters into a tripartite agreement with the Issuer and Registrar & Transfer (R&T) Agent, as the case may be, for the securities declared eligible for dematerialisation.

The rights and obligations of the depository, the issuer and R&T Agent are embodied in the Tripartite Agreement between them. This agreement has to be signed before the Issuer/R&T Agent can be admitted in the depository system. Some of the main terms of the Agreement are quoted below:

1. The Issuer/R&T Agent shall furnish a list of authorised officials who shall represent and interact on behalf of the Issuer and/or R&T Agent with the depository within 15 days of the execution of this agreement and any changes including additions/deletions thereof shall be communicated to the depository within 15 days of such change.
2. The depository shall allocate unique identity codes to the securities issued by an issuer. Such code is called ISIN (International Securities Identification Number).
3. The Issuer/R&T Agent shall establish continuous electronic means of communication with the depository and the depository in turn shall provide necessary manuals and procedural guidelines to the Issuer/ R&T Agent as is necessary for effective and prompt conduct of the business of the Depository. The Issuer/R&T Agent shall maintain such systems, procedures, means of communication, adequate infrastructure, hardware, software security devices and backup facilities as may be prescribed by the depository.
4. The Issuer/R&T Agent shall strictly follow the back-up procedure recommended by the depository. A copy of the latest back-up of database and subsequently incremental back-up shall be maintained at a designated remote site.
5. The Issuer/R&T Agent shall comply with all the systems and procedures recommended by the depository and shall allow access to their systems to an Audit Team, designated by the depository for periodic assessment of compliance with systems and procedures.
6. The Issuer/R&T Agent agree that the depository shall not be liable to the Issuer/R&T Agent for any loss arising out of any failure of the Issuer/R&T Agent to keep full and up-to-date security copies (back-up) of computer programme and data it uses in accordance with the best computing practice.
7. The Issuer shall inform the depository on the next day on which the information is being sent to the stock exchanges in which the eligible securities are listed, about the dates from which new shares arising out of conversions, further issues, final call payments, etc. become pari passu with its existing shares.
8. The Issuer shall furnish information to the depository of any further issues such as rights, bonus, public offerings with details viz., opening and closing dates, issue size, issue price, record date, book closure, proportion, along with a copy of the offer document.
9. The Issuer shall give information to the depository about book closures, record dates, dates for the payment of interest or dividend, dates for annual general meetings and other meetings, dates for redemption of debentures, dates for conversion of debentures and warrants, call money dates, amalgamation, merger, reduction of capital, reconstruction scheme of arrangement, sub-division, consolidation, and conversion of debentures/loans and such other information relating to any corporate action, on the next day it is being communicated to the relevant stock exchanges, where the eligible security is listed.

10. The Issuer and its R&T Agent undertakes that the dematerialisation and rematerialisation requests are processed within 15 and 30 days respectively. However, the period may be relaxed by the depositories in case of bulk dematerialisation requests.
11. The Issuer and its R&T Agent undertakes that no dematerialisation requests shall be accepted when there is any prohibitory order, stop transfer, attachment order, or disputed title, on the day of such request. It is agreed that where a court order has been received by the Issuer and/ or its R&T Agent or where there are court orders against any transfer request if such a request is entertained, the Issuer/R&T Agent shall be entirely responsible. The Issuer/R&T Agent agrees to be fully responsible for destruction, mutilation and cancellation of certificates received and accepted by it for dematerialisation.
12. It is agreed that the Issuer/R&T Agent will continue to be responsible for corporate actions. The depository undertakes to provide the list of beneficial owners with suitable details to the Issuer/ R&T Agent as of the record date. The list shall be provided by the depository within such time as specified by the depository from time to time after such request has been received by them. In the event of any loss caused to the Issuer/R&T Agent, in respect of any incorrect information relating to the Client, furnished by the depository or its Participant, the depository shall indemnify such losses.
13. The Issuer/R&T Agent shall indemnify the depository in respect of any loss or liability incurred, or any claim arising in respect of any incorrect information furnished by the Issuer/R&T Agent in respect of the operations of the Depository.
14. Any claims, disputes or liabilities arising in respect of any securities which have been rematerialised under intimation from the Issuer/R&T Agent to the depository after the despatch of such securities' certificates in the manner laid down under the Bye-Laws shall be settled between the Issuer/R&T Agent and the owner of such securities.
15. In the case of securities that have been dematerialised and electronically credited to the accounts of the Clients under intimation from the Issuer/R&T Agent in the manner laid down under the Bye-Laws, any claims, disputes or liabilities or cause of action from a third party arising in respect of such securities pertaining to any fake or forged securities shall be settled between the Issuer/R&T Agent and such third party.
16. The depository may authorize persons who shall have the right to enter during the regular business hours, on any working day, the premises of such Issuer/R&T Agent where the records relating to the depository operations are being maintained and inspect, and take copies thereof. It shall also provide reports updating details of BOs on a fortnightly basis to the Issuer/R&T Agent.
17. The depository shall provide the details of the list of BO’s as well as the pending requests for Dematerialisation and Rematerialisation that may be required by the Issuer/R&T Agent from time to time on the payment of such charges as may be provided in the Business Rules.

18. Such information shall be provided within a stipulated period from the date of making such request. Where the list of Beneficial Owners is required as on a particular date, the same shall be provided within a stipulated period after such date or as decided by the depository from the date of receipt of such request by the depository whichever is later. NSDL has specified the period as 15 days.
19. The depository shall in its discretion provide any other details that may be required by the Issuer and/ or its R & T Agent from time to time on the payment of such charges as it may deem fit.
20. The Issuer and/or R & T Agent shall inform the depository of any proposed changes in the address of the Registered Offices, Corporate Office or of the location where the equipment for communication with the depository is situated not less than thirty days before the date of such change.
21. The depository shall inform the Issuer and/or its R & T Agent of any proposed changes in the address of its Registered Office or Corporate Office not less than thirty days before the date of such change.
22. The Issuer shall not change, discontinue or substitute its R & T Agent unless the alternative arrangement has been agreed to by the depository.
23. The Issuer and/or its R & T Agent shall not assign to any other person/ entity its functions & obligations, relating to transactions with the Depository, without the approval of the depository.
24. All parties to this agreement shall resolve the grievances of the BOs within a period of 21 days for NSDL and 30 days as per CDSL agreement, from the date of receipt of the complaint, concerning the depository, the Issuer and/ or its R & T Agents.

3.3.4 Role of Issuer/ R&T Agent in Dematerialisation of Securities

The Depository electronically intimates, on a daily basis, all dematerialisation requests to the respective Issuer or its R&T Agent. The Issuer or its R&T Agent have to verify the validity of the security certificates as well as the fact that the demat request has been made by the person recorded as a member in its Register of Members. After such verification, the Issuer or its R&T Agent intimates the depository and authorizes an electronic credit for that security in favour of the Client. On receipt of such intimation, the depository makes the credit entries in the account of the Client concerned. No credit of any securities to the accounts of any client can be made unless the depository has received intimation from the Issuer or its R&T Agent. Where the Issuer or its R&T Agent rejects any dematerialisation request, it has to electronically intimate the depository regarding such rejection within a period of 15 days. After intimating such rejection to the depository, the Issuer or its R&T Agent returns the DRF along with the rejection reason and relevant security certificates, unless the reasons for rejection are any of the following:

- the security certificates are stolen or;

- the security certificates are fake or;
- in the event of an order from a court or a competent statutory authority prohibiting the transfer of such securities or;
- in case duplicate certificates have been issued in respect of the securities with the same distinctive numbers.

The Issuer or its R&T Agent, after giving intimation as set out in the Bye-Laws, represents and warrants to the depository, that such securities exist and are validly issued and it is entitled or has full authority to transfer such securities with the Depository in the name of the Client. [8]

3.3.5 Role of Issuer/ R&T Agent in Rematerialisation of Securities

A Client may withdraw its security balances with the Depository at any point of time by making an application for rematerialisation to the Depository through its DP. When the investor submits the Remat Request Form (RRF), the Issuer and/or its R&T Agent and the depository have to take the following steps:

- The depository intimates electronically about the details of all accepted rematerialisation applications to the Issuer or its R&T Agent on a daily basis.
- The DP forwards the RRF to the Issuer or its R&T Agent within 7 days of accepting such request from the client. The Issuer/R&T Agent, after validating the RRF, confirms to the depository electronically that the RRF has been accepted. Thereafter, the Issuer/R&T Agent despatches the security certificates arising out of the rematerialisation request within a period of 30 days from receipt of such RRF directly to the client. On receipt of such acceptance from the Issuer/ R&T Agent, depository debits the balances from the respective client's account held with the DP's.

3.3.6 Role of Issuer/R&T Agent in Corporate Benefits

It is the function of the Issuer/R&T Agent to inform the depository about the corporate actions relating to prescribing dates for book closures, record dates, dates for redemption or maturity of security, dates of conversion of debentures, warrants, call money dates and such other action from time to time and submit necessary approval documents for the corporate actions. On receiving such intimation, the depository provides the details of the holdings of the clients electronically to the Issuer/R&T Agent (as of relevant cut- off date) for the purpose of corporate actions and distribution of corporate benefits.

[8]CDSL has a provision of opening an account for unclaimed securities by an Issuer, but it is applicable for securities being issued in IPO and is not to be used for dematerialisation process.

The Issuer/R&T Agent distributes dividend, interest or other monetary benefits directly to the eligible beneficial owners on the basis of the list provided by the depository. The corporate benefits can be distributed through the depository also with its concurrence. The Issuer/R&T Agent may, if the benefits are in the form of securities, distribute such benefits to the clients through the depositories in the following cases:

• The newly created security is an eligible security.

• The concerned client has consented to receive the benefits through the depository. In such a case, the Issuer/R&T Agent provides allotment details of all clients to the depository. On receipt of these details, the depository makes the necessary credit entries in the account of the client concerned. In certain cases, such as split of shares, consolidation of shares, mergers, demergers, bonus shares, etc. corporate action is executed automatically as per the fixed ratio defined by Issuer/R & T Agent, through the depository system. This feature is called "Auto Corporate Action".

Review Questions

Questions to assess your learning:

1. For registering as a DP, the application should be submitted _____.

(a) separately to Depository and SEBI

(b) to Depository, who will in turn forward it to SEBI after evaluation

(c) to Depository who will in evaluate and register the DP

(d) directly to SEBI and a copy should be sent to Depository for information only

2. After Depository receives an application for registering as a DP, it evaluates and forwards the application to SEBI within _____.

(a) 30 days

(b) 15 days

(c) 45 days

(d) 90 days

3. As per PMLA, records of services need to be preserved for _____ years.

(a) 1

(b) 5

(c) 7

(d) 10

4. Are Certificates of deposits eligible for dematerialisation as per SEBI (Depositories & Participants) Regulations, 1996?

(a) Yes

(b) No

Chapter 4: Functions of Depository Participant-Account Opening

Learning Objectives:

After studying this chapter, you should know about:

- Two types of depository accounts—Beneficiary account and Clearing member account
- Opening and closing procedures of depository accounts
- Freezing of depository accounts
- Procedure for changes in client details of accounts

4.1 Introduction

An investor wishing to avail depository services must first open accounts with a DP registered with a depository. The process of opening a demat account is very similar to that of a bank account. An investor has the option of opening an account with several DPs or opening several accounts with a single DP. There are several DPs offering various depository-related services. Each DP is free to frame its own fee structure. Investors have the freedom to choose a DP based on certain criteria such as convenience, comfort, service levels, safety, reputation and charges. The investor while opening an account has to submit an acknowledgement of receipt of the copy of the Rights and Obligations document the DP. The form and contents of the Rights and Obligations document are specified by SEBI and DP Operating Instructions of the depository in which the DP is registered.

In this chapter we will understand the different types of accounts and the procedure for account opening under the depository system.

4.2 Types of Account

There are mainly two types of demat accounts which can be opened with a depository participant *viz*., (a) Beneficial Owners Account, and (b) Clearing Member Account. The type of depository account depends on the operations to be performed.

***Beneficiary Account**:* A beneficial owner's account is an ownership account. The holder/(s) of securities in this type of account owns the securities. For example, Mr. Ram who is a retail investor trades in the securities market. The securities which he buys or sells will be kept in his beneficial owner account which he would have to open with a DP.

Clearing Member Account(*)*:* This account is opened by a broker or by a clearing member for the purpose of settlement of trades executed on a recognised stock exchange.

The clearing member account is a transitory account. The securities in this account are held for a commercial purpose only. The securities in this account will be eligible for any corporate action benefit declared. More details about clearing member accounts is given in Section 4.4.

4.3 Beneficial Owner Account

This account is opened by investors to hold their securities in dematerialised form with a depository and to carry out the transactions of sale and purchase of such securities in book entry form through the depository system. A beneficiary account holder is legally entitled for all rights and liabilities attached to the securities held in that account. Therefore, the account is called "**beneficial owner account**". A beneficiary account can be in the name of an individual, corporate, HUF entity, minor, bank, financial institution, registered (incorporated) trust, etc. or the broker himself for the purpose of his personal investments in demat form. These accounts are opened with a DP.

SARAL Account Opening Form for resident individuals:

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

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'. The said forms are available with the intermediaries and can be downloaded from the Exchanges' and Depositories' website. The investors who open an account through SARAL AOF (SARAL Account Opening Form) shall also have the option to obtain other facilities, whenever they require, on furnishing of additional information as per prescribed regulations/circulars.
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 and other requirements for account opening form shall continue to remain applicable to SARAL Account Opening Form.

Further, DPs are required to open separate accounts, for their own investments, thereby keeping the `beneficial owner' accounts separate. This is to ensure that there is no co-mingling of their assets with that of their clients.

General guidelines for Account Opening

a) Self-attested copy of PAN card is mandatory for all Clients including Promoters / Partners / Karta / Trustees / Whole Time Directors and persons authorised to deal in securities on behalf of company / firm / others.
b) Copies of all documents submitted by the applicant should be self-attested and accompanied by originals for verification. In case the original of any documents are not produced for verification, then the copies should be properly attested by the entities authorised for attesting the documents.
c) If any proof of identity or address is in a foreign language, then translation into English is required.
d) Name & address of the applicant mentioned on the KYC form, should match with the documentary proof submitted.
e) In case of PAN, Participants 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.
f) If correspondence & permanent address is different, then proofs for both have to be submitted.
g) Sole proprietor must make the application in his individual name & capacity.
h) For non-residents and foreign nationals, (allowed to trade subject to RBI and FEMA guidelines), copy of passport/PIO Card/OCI Card and overseas address proof is mandatory.
i) For foreign entities, CIN is optional; and in the absence of DIN no. for the directors, their passport copy should be given.
j) In case of Merchant Navy NRI's, Mariner's declaration or certified copy of CDC (*Continuous Discharge Certificate*) is to be submitted.
k) For opening an account with Depository participant or Mutual Fund, for a minor, photocopy of the School Leaving Certificate/Mark sheet issued by Higher Secondary Board/Passport of Minor/Birth Certificate must be provided.
l) Politically Exposed Persons (PEP) are defined as individuals who are or have been entrusted with prominent public functions in a foreign country, e.g., Heads of States or of Governments, senior politicians, senior Government/judicial/ military officers, senior executives of state owned corporations, important political party officials, etc.

List of people authorised to attest the documents

a) Notary Public, Gazetted Officer, Manager of a Scheduled Commercial/ Co-operative Bank or Multinational Foreign Banks (Name, Designation & Seal should be affixed on the copy).

b) In case of NRIs, authorised officials of overseas branches of Scheduled Commercial Banks registered in India, Notary Public, Court Magistrate, Judge, Indian Embassy /Consulate General in the country where the client resides are permitted to attest the documents.

With a view to bring about uniformity in securities markets, common KYC form and supporting documents are required to be used by SEBI registered intermediaries. The KYC form shall be filled by an investor at the account opening stage while dealing with any of the above intermediaries. Additional details specific to the area of activity of the intermediary shall be obtained from the investors in Part II of the account opening form.

The additional information (Part II) is prescribed by Depositories for their depository participants and by Association of Mutual Funds in India (AMFI) for all mutual funds. The Portfolio Managers, Venture Capital Funds, and Collective Investment Schemes shall capture the additional information specific to their area of activities, as considered appropriate by them. The intermediaries shall also continue to abide by Circulars issued by SEBI from time to time for prevention of money laundering.

4.3.1 Documents for Verification

I. Non-body Corporate / Individuals Investors: All non-body corporate investors have to submit any one of the following documents as given below prescribed by SEBI, along with the stipulated KYC Application Form (Part I) and Account Opening Form (Part II) as per the format and submit the same to the DP alongwith acknowledgement of receipt of Rights and Obligation document. The schedule of fees to be charged by the DP to the Client should form a part of the Rights and Obligation document. A beneficiary account can only be opened after obtaining a proof of identity and address of the applicant. An authorised official of the DP should verify the photocopies of any of following documents submitted with their corresponding originals and after putting his/her signature on them with remarks "verified with original" before proceeding to open the account.

It is mandatory for all DPs to carry out ‘in-person’ verification (IPV) of their Clients. At the time of opening demat accounts, the DP should establish the identity of the applicant(s) (*including guardian in case of minor account*) by verifying the photograph(s) affixed in the KYC Application Form as well as proof of identity document(s), with the person concerned. Further, in case of joint accounts, IPV needs to be carried out for all the holders of the account. DP may use ‘web-camera’ for carrying out IPV for opening of depository accounts subject to compliance with other

SEBI guidelines/circulars relating to opening of depository accounts including verification of documents.

Upon the applicant(s) submitting the KYC Application Form and the account opening form, proof of identity & address documents and PAN details, the DP should follow the procedure as given below:

I. Verify the identity of the applicant(s) as clarified above.
II. After due verification, the DP shall ensure that the following details are recorded on the KYC Application Form at the time of IPV:
    1. name of the person doing IPV,
    2. his designation,
    3. organisation
    4. his signature and
    5. date
III. Manner of recording IPV details on KYC Application Form: DP may either affix a stamp or print the IPV details or write the same on the KYC Application Form. If IPV is done through web camera, then mention "IPV through webcam" as well.
IV. Place where IPV details are to be recorded on the KYC Application Form: DPs may record the same at any appropriate place on the KYC Application Form as may be deemed fit by the DP without making illegible the other details mentioned in the KYC Application Form. For non-individuals such as unregistered trust, etc. where the KYC Application Form for non-individuals is filled up and the depository account would be opened in the name of the individual (*such as trustee, etc.*), the IPV details may, if DPs find it appropriate, be recorded at the Annexure to KYC Application Form where the details of the karta, trustee, etc. are mentioned.
V. Attachment of separate sheet to the KYC Application Form or affixing stickers on the KYC Application Form for recording of IPV details will not be permitted.

The IPV carried out by one SEBI registered intermediary can be relied upon by another intermediary. In case of stock brokers, their sub-brokers or Authorised Persons (appointed by the stock brokers after getting approval from the concerned Stock Exchanges in terms of SEBI Circular No. MIRSD/DR-1/Cir-16/09 dated November 06, 2009) can perform the IPV. In case of Mutual Funds, their Asset Management Companies (AMCs) and the distributors who comply with the certification process of National Institute of Securities Market (NISM) or Association of Mutual Funds (AMFI) and have undergone the process of 'Know Your Distributor (KYD)', can perform the IPV. However, in case of applications received by the mutual funds directly from the clients (*i.e. not through any distributor*), they may also rely upon the IPV performed by the scheduled commercial banks. In the case of NRIs/foreign nationals, considering the infeasibility of carrying

out IPV, in such a situation photocopies of the KYC documents should be attested by any of the entities viz., Notary Public, any Court, Magistrate, Judge, Local Banker, Indian Embassy/ Consulate General of the country where NRI/FN is residing [*outside India*] to the effect that it has been verified with the originals. DP must use separate KYC Application Form to collect information for each holder for joint accounts (i.e. for first holder, second holder and third holder) as well as for guardian in case the sole holder is a minor.

A demat account can have maximum three holders. Proof of identity is to be obtained for all the holders. For First holder proof of correspondence address as well as permanent address is to be obtained in case the correspondence address is not the same as the permanent address. For joint holder's proof of only permanent address is to be obtained. In addition, obtaining PAN Card details of all the holders is compulsory for all categories of demat account holder(s). In some cases, the PAN is not required to be entered. Such cases have to be handled by entering the appropriate exemption codes. The exemption codes are provided by way of communiqués from time to time.

(a) Proof of Identity (POI):

I. Passport
II. Voter ID card
III. Driving license
IV. PAN card with photograph
V. Unique Identification Number (UID) (Aadhaar)
VI. Identity card/document with applicant's photo, issued by
   a) Central/State Government and its Departments,
   b) Statutory/Regulatory Authorities,
   c) Public Sector Undertakings,
   d) Scheduled Commercial Banks,
   e) Public Financial Institutions,
   f) Colleges affiliated to Universities (this can be treated as valid only till the time the applicant is a student),
   g) Professional Bodies such as ICAI, ICWAI, ICSI, Bar Council etc., to their Members; and
   h) Credit cards/Debit cards issued by Banks.
VII**.** 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.

(b) Proof of address (POA) - Following is the 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 /Aadhaar Letter issued by Unique Identification Authority of India.
b. Utility bills like – (Not more than 3 months old– as on date of receipt for documents).
    i. Telephone Bill (only land line)
    ii. Electricity bill or
    iii. Gas bill
c. Bank Account Statement/Passbook – (Not more than 3 months old – as on date of receipt for documents): Depending on the type of bank statement issued the following checks must be done:

    i. Original bank statement: The original bank statement is printed on the stationery of the bank, carries logo & name of the bank, displays the name and address of the Client.
    ii. Copy of bank statement: In addition, the authorised official of the DP should verify the photocopy of the bank statement submitted with the corresponding original.
    iii. Original Bank statement on plain paper (Computer generated):
        - The bank statement clearly mentions the name and address of the Client.
        - The bank statement is duly attested (signed and stamped) by the authorised official of the bank mentioning the name and designation of such authorised official.
        - Obtain a cancelled cheque leaf in original OR a photocopy of cheque and the authorised official of DP should verify the same with the original cheque.
d. Bank statement issued in electronic form:
        a. Print out of the bank statement clearly mentions the name and address of the Client.
        b. Obtain a cancelled cheque leaf in original OR a photocopy of cheque with the name of the Client pre-printed on it. However, in case of a photocopy of cheque it can be accepted provided the authorised official of DP verifies the same with the original cheque.
e. Self-declaration by High Court and Supreme Court judges, giving the new address in respect of their own accounts.
f. 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 Authority.
g. 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.

h. For FPI Power of Attorney given by FPI to the Custodians (which are duly notarised and/or apostiled or consularised) that gives the registered address should be taken.
i. The proof of address in the name of the spouse may be accepted.
j. Acceptance of third party address as correspondence address in depository account[9]
    a. Client can also provide third party address as correspondence address in depository account provided Participant 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.
    b. However, the above provision shall not apply in case of PMS (Portfolio Management Services) clients. [10]

Where the account is to be jointly held, the POI and POA documents must be collected in respect of all the account holders. The aforesaid documents are the minimum requirement for opening a BO Account. Participants are advised to exercise due diligence while establishing the identity of the person to ensure the safety and integrity of the depository system. Participants can apply stricter criteria and accordingly, decide to accept, select documents out of the list of documents prescribed by SEBI, as proof of identity/address.

II. For Corporate Investors: All corporate investors have to submit the following documents as prescribed by SEBI along-with the stipulated KYC Application Form (Part I) and Account Opening Form (Part II) as per the format. DPs shall ensure that in case of foreign entities, all transactions in the account are in compliance with FEMA Regulations. Accordingly, DPs are required to obtain from such foreign entities necessary documents evidencing general/specific approvals as may be required under FEMA Regulations. Further, DPs are required to obtain a declaration from the foreign entity that it has complied and will continue to comply with FEMA Regulations. DPs are required to use separate KYC Application Form to collect information for each holder for joint accounts (i.e. for first holder, second holder and third holder).

1. Memorandum & Articles of Association (MOA & AOA) & Certificate of Incorporation.
2. Board resolution authorizing opening of demat account and specifying the names of the persons authorised by Board to operate the said demat account. The Board Resolution must

[9]SEBI Circular No. CIR/MRD/DP/ 37 /2010 dated December 14, 2010
[10]Reference letter no. IMD/ MT/165502/ 2009 dated June 05, 2009

specify the manner of operation of the account and authority given to the authorised signatories to open and operate the account.

3. Names of authorised signatories, designation along-with their specimen signatures and photographs, duly verified by the Managing Director or Company Secretary.
4. Proof of address of the corporate, evidenced by the document registered with Registrar of Companies or acknowledged copy of Income Tax Return or Bank Statement or Leave and License Agreement/Agreement for sale or Landline telephone bill / electricity bill /Pan card of the corporate entity.
5. Copy of the balance sheets for the last 2 financial years (to be submitted every year).
6. 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).
7. Photograph, POI, POA, PAN and DIN numbers of whole time directors/two directors in charge of day to day operations.
8. Photograph, POI, POA, PAN of individual promoters holding control - either directly or indirectly.
9. Copy of the Board Resolution for investment in securities market.

An authorised official of the DP shall verify the copies of the proof of address / identity documents with the original documents and write or put a stamp with the words: “verified with original” and affix his/her signature on the documents submitted by the Client, while exercising such due diligence.

e-KYC service:

SEBI has already permitted use of e-KYC service launched by UIDAI. The Aadhaar e-KYC service provides an instant, electronic, non-repudiable proof of identity and proof of address along with date of birth and gender (digitally signed and encrypted). In addition, it also provides the resident’s mobile number and email address (if available) to the service provider, which helps to further streamline the process of service delivery. e-KYC may be performed at the service centre of Participant using biometric authentication, as well as remotely using an OTP on a website or mobile connection. Considering the benefits and convenience of e-KYC, Participants may consider using the e-KYC services.

In-person verification of the client is not required to be carried out, if:

a. Verification of the client with UIDAI is carried out through biometric authentication (fingerprint or iris scanning).
b. Verification of the client with UIDAI is carried out 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.

If KYC verification of the client is carried out through Aadhaar based e-KYC service offered by UIDAI as per the aforementioned SEBI Circular and PAN of the client is verified from the income tax website, the information downloaded from UIDAI shall be considered as sufficient information for the purpose of KYC verification and the client is not required fill up the KYC form and put his / her signature on the same.

SEBI Registered intermediaries for reasons such as online on-boarding of clients, customer convenience, increased efficiency and reduced time for client on- boarding would prefer to use Aadhaar based e-KYC facility to complete the KYC of the client. This Aadhar authentication is permitted under section 11A of the PMLA and nine entities[11] shall undertake Aadhaar Authentication service of UIDAI subject to compliance of the conditions as laid down in this regard. These entities shall register with UIDAI as KYC user agency ("KUA") and shall allow SEBI registered intermediaries / mutual fund distributors to undertake Aadhaar Authentication of their clients for the purpose of KYC through them. The KUAs and sub-KUAs shall adopt the process as laid down by UIDAI for Aadhaar e-KYC of investors (resident) in the securities market. The entire process is given in Annexure 1.

In April 2020, guidelines on use of technology were issues by SEBI. It was also stated that the SEBI registered intermediary shall continue to ensure to obtain the express consent of the investor before undertaking online KYC. [12] The intermediary may implement their own Application (App) for undertaking online KYC of investors. The App shall facilitate taking photograph, scanning, acceptance of officially valid document (OVD) through Digilocker, video capturing in live environment etc. Only the authorized person of the RI shall use the app.

The App shall also have features of random action initiation for investor response to establish that the interactions are not pre-recorded, time stamping, geo-location tagging to ensure physical location in India etc. is also implemented. RI shall ensure that the process is a seamless, real-time, secured, end-to-end encrypted audiovisual interaction with the customer and the quality of the communication is adequate to allow identification of the customer beyond doubt. RI shall carry out the liveliness check in order to guard against spoofing and such other fraudulent

[11] Bombay Stock Exchange Limited, National Securities Depository Limited, Central Depository Services (India) Limited, CDSL Ventures Limited, NSDL Database Management Limited, NSE Data and Analytics Limited, CAMS Investor Services Private Limited, Computer Age Management Services Private Limited and National Stock Exchange of India Limited,

[12] SEBI Circular Ref. No. SEBI/HO/MIRSD/DOP/CIR/P/2020/73 Dated April 24, 2020

manipulations. The RI shall carry out period software and security audit and validation of their App.

Feature for Video in Person Verification (VIPV) for Individuals – To enable ease of completing IPV of an investor, intermediary may undertake the VIPV of an individual investor through their App. The following process shall be adopted in this regard:

i. Intermediary through their authorised official, specifically trained for this purpose, may undertake live VIPV of an individual customer, after obtaining his/her informed consent. The activity log along with the credentials of the person performing the VIPV shall be stored for easy retrieval.
ii. The VIPV shall be in a live environment.
iii. The VIPV shall be clear and still, the investor in the video shall be easily recognisable and shall not be covering their face in any manner.
iv. The VIPV process shall include random question and response from the investor including displaying the OVD, KYC form and signature or could also be confirmed by an OTP.
v. The RI shall ensure that photograph of the customer downloaded through the Aadhaar authentication / verification process matches with the investor in the VIPV.
vi. The VIPV shall be digitally saved in a safe, secure and tamper-proof, easily retrievable manner and shall bear date and time stamping.
vii. The RI may have additional safety and security features other than as prescribed above.
viii. The detailed SEBI circular on the use of technology in e-KYC is given in Annexure 2.

Operationalization of Central KYC Records Registry (CKYCR):

The Government of India vide their Notification dated November 26, 2015 authorised the Central Registry of Securitisation Asset Reconstruction and Security Interest of India (CERSAI), set up under sub-section (1) of Section 20 of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (54 of 2002), to act as and to perform the functions of the Central KYC Records Registry under the said rules, including receiving, storing, safeguarding and retrieving the KYC records in digital form of a “client”, as defined in clause (ha) of sub-section (1) of Section 2 of the Prevention of Money-Laundering Act, 2002. The Central Government have also amended the Prevention of Money-laundering (Maintenance of Records) Rules, 2005 vide Notification dated 7th July, 2015 for the purpose of establishment of Central KYC Registry. As per Prevention of Money-laundering (Maintenance of Records) Amendment Rules, 2015, Rule 9 (1A), every reporting entity shall within three days after the commencement of an account-based relationship with a client, file the electronic copy of the client’s KYC records with the Central KYC Registry.

Mandatory updation of certain attributes of KYC of clients

SEBI in consultation with all MIIs has made 6-KYC attributes mandatory for all the categories of clients.

1. Following 6-KYC attributes are made mandatory:
    a. Name
    b. Address
    c. PAN
    d. Valid mobile number
    e. Valid email-id
    f. Income range

2. Checks for PAN
    a. The requirement of mandatory submission of PAN by clients for transactions in the securities market shall continue to apply, with permitted exemptions.
    b. Participants shall verify the PAN online using the Income Tax Database.
    c. In case PAN is not seeded with AADHAAR before the date specified by the Government, it will not be considered as a valid PAN.

3. Checks for mobile number and email ID
    a. Participants shall ensure that separate mobile number and email address is captured for all BO account holders. However, after submitting a written declaration, BO can update mobile number and email address of its family members. [13]
    b. In cases, wherein same mobile number / email ID is captured in more than 1 demat account and family flag is also not updated, DPs shall be required to send 15 days' notice to such demat account holder for submitting mobile number /email ID modification form / request letter for updating the same or family flag declaration, failure to comply with which would result in classification of such accounts as non-complaint accounts.
    c. DPs shall ensure that the mobile numbers/ email addresses of Depository Participants /their KMPs/ other employees etc. are not captured.
    d. In case DP has the mobile number and email ID of the client in its back office, or trading account or in the bank account provided by the client and account is KYC complied in such trading account / bank account, the DP may update the details in the Demat account and intimate the client about the updation by sending the Client Master Report along with an intimation to complete the validation process.
    e. Following cannot be considered as valid mobile number: (i) In respect of mobile numbers for India, Mobile no. is of 10 digit but starts with any number between 1 to 5 i.e. (1,2,3,4 & 5); (ii) '0000000000' / '1234567890' is captured; (iii) Single number is

[13] Family for this purpose has been defined as self, spouse, dependent parents and dependent children.

appearing in all 10 digit such as ‘1111111111’, ‘2222222222’, 3333333333, 4444444444, 5555555555, 6666666666, 7777777777, 8888888888, and 9999999999.

f. Following cannot be considered as valid email ID: (i) ‘No email’ is mentioned in email ID; (ii) ’@’ is not mentioned in email ID; (iii) If words - 'not provided' and ‘xyz’ are mentioned in email id field; (iv) Invalid email domain is mentioned. E.g. Number digits are mentioned prior to domain name viz. 202Ggmail.com, 1234gmail.com, 1rediffmail.com, 55yahoo.com, etc; (v) There is '.' (dot) at the end of Email ID; (vi) There is no '.' (dot) after '@' and before text; (vii) More than one '@' are there in email ID.

4. Verification of mobile number and email ID
    a. An additional flag is available in the depository system to identify the valid mobile number and valid email id.
    b. Depository shall take necessary steps to verify that mobile number, email ID updated in the beneficial owner account is accessible by sending an SMS, and email directly to the account holders’ mobile number and the email ID captured in the account. In case an electronic confirmation is received from the said mobile number and the said email ID, such mobile number and/or the email ID will be considered as verified and ‘verified’ flag will be enabled against such mobile number and/or email ID.
    c. Accounts where the mobile number or email id cannot be verified shall be considered as non-complaint accounts.

5. Income Range
    a. As per Form 9 (Account opening form for Individuals) and Form 11 (Account Opening Form for Non Individuals), income range per annum is required to be obtained from clients.
    b. The income range as required under Form 9 and Form 11 are as given below:
        i. Income Range-Individuals
            - Below Rs. 1 lac
            - Rs. 1 lac to Rs. 5 lacs
            - Rs. 5 lac to Rs. 10 lac
            - Rs. 10 lacs to Rs. 25 lacs
            - More than Rs. 25 lacs
        ii. Income Range-Non-Individuals
            - Below Rs. 20 lacs
            - Rs. 20 lacs to Rs. 50 lacs

- Rs. 50 lacs to Rs. 1 crore
- More than Rs. 1 crore

6. Implementation
    a. In respect of all existing accounts, Participants must verify that all 6-KYC attributes are updated and wherever required necessary communication to be sent to their clients to update the same on or before May 31, 2021.
    b. Participants shall be required to inform the clients through both physical and electronic modes and through its website, if any, for updating the details and completing the validation process.
    c. Thereafter, such non-compliant demat accounts will be liable to be made inactive i.e., no debit will be allowed in such demat account (except for settlement of already open positions).
    d. The demat accounts where the clients have not updated all the 6 KYC attributes, such demat accounts will be frozen for debits under Freeze reason code - 37 (Non-Compliant - 6 KYC Attributes).
    e. Participants may note that the deficient details can be updated by the clients with the Participant. When the demat account becomes compliant with 6 KYC attributes and if it was frozen only with reason code - 37, the demat account can immediately be unfrozen by the Participant. Necessary proof of documents / details while unfreezing the demat account shall be maintained for record and compliance.

4.3.2 Common Information

There are some common details which are required for any type of account opening with the DP which is stated below.

- Name of the holder
- Date of birth (for individual accounts)
- Occupation and financial details
- Address & phone/fax number
- Bank details like name of bank, type of account (current/savings), account number, branch address, MICR, IFSC etc.
- PAN number
- Details of nomination (for individual accounts only)
- Specimen signatures
- e-mail address
- Mobile number
- Address for communication

The procedure involved in opening of an account, the nature of such an account, and the various factors to be considered for opening a depository account are explained in the subsequent sections.

4.3.3 Beneficial Owner Account - Procedure for Opening an Account

Investors wishing to open account with the depository have the following benefits/choices:

- Can select the DP based on the investors convenience, comfort, service levels, safety, reputation, charges etc.
- Have the flexibility to open more than one account with the same DP or any other DPs
- No requirement of minimum balance
- Can close an account anytime with one DP and open another one with any other DP.

The type of the account opening form to be filled by an investor and the list of documents required depend on the type of beneficiary account to be opened - whether it is for NRIs or Corporate or individual. Further, a demat account can be in a single name or joint names.
In case of Joint accounts, the depositories have introduced an option whereby the joint holders in client account may authorise jointly, any one of the holders or survivor(s) to operate the Client account for the following types of operations/transactions:

i) Transfer of securities including Inter-Depository Transfer.
ii) Pledge/ Hypothecation / margin pledge / margin re-pledge (Creation, Closure and Invocation and confirmation thereof, as applicable).
iii) Freeze/ unfreeze account and/ or the ISIN and / or specific number of securities.

However, for all other transactions at joint account level, the mode of operation shall jointly be by all the account holders.

Clearing Members and brokers have to open a beneficiary account if they have to deal with their own holdings.
There are several client types in the depository system and different codes are allotted to them. However, the NSDL and CDSL codes may not be exactly same. Some of the codes are listed below:

1. Resident (Individual)
    - Ordinary (Resident Individual)
    - Promoter
    - Ordinary-DR
2. Financial Institutions (FI)
    - Government-sponsored FI
    - State Financial Corporation
    - Others
    - Govt. sponsored FI - Promoter
    - SFC-Promoter

- Others-Promoter

3. Foreign Institutional Investors (FIIs)
    - Mauritius-based
    - Others
    - DR
4. Non-resident Indian (NRI)
    - Repatriable
    - Non-Repatriable
    - DR
    - NRI-Repatriable-Promoter
    - NRI Non Repatriable -Promoter
5. Body Corporate
    - Domestic Company
    - Government Company
    - Central Government
    - State Government
    - Co-operative Body
    - Non-Banking Finance Companies (NBFC)
    - Non-NBFC
    - Broker
    - Foreign Bodies
    - Group Companies
    - Foreign Venture Capital
    - Limited Liability Partnership
    - Others
    - OCB-Repatriable
    - OCB-Non Repatriable
    - OCB-DR
    - Foreign Bodies - DR
    - Domestic-Promoter
    - Government Companies - Promoter
    - Central Government - Promoter
    - State Government - Promoter
    - NBFC-Promoter
    - Non-NBFC-Promoter
    - Group Company - Promoter
    - Foreign Body-Promoter
    - Others-Promoter

- Co-operative Body – Promoter
- Domestic-DR
- Limited Liability Partnership-DR
- Limited Liability Partnership (Foreign)
- Limited Liability Partnership (Foreign) -DR
- Foreign Government
- Overseas Depository – Underlying DR
- Escrow Account

6. Clearing Member (CM)
7. Foreign National
    - DR
    - FN
    - FN-Promoter
8. Mutual Fund
    - DR
    - MF
9. Trust

    - Employee Stock Option
    - Employee Stock Purchase
    - Stock Appreciation Right
    - General Employee Benefit Scheme
    - Retirement Benefit Scheme
    - Other - Employee Benefit Trust (Old Scheme)
    - Other

10. Bank
    - Foreign Bank
    - Co-operative Bank
    - Nationalised Bank
    - Others
    - Others-Promoter
    - Nationalised Bank -Promoter
    - Foreign Bank - Promoter
    - Co-operative Bank - Promoter
    - Foreign - Scheduled Commercial Bank
    - Scheduled Co-operative Bank
    - Other - Scheduled Commercial Bank
    - Client Collateral Account – Custodian

- Escrow Account

11. Qualified Foreign Investor – Individual
12. Qualified Foreign Investor Corporate
13. Foreign Portfolio Investor Individual- Category III & Category III – DR
14. Foreign Portfolio Investor Corporate - Category I, II & III &Category I, II & III – DR
15. Alternate Investment Fund – Corporate - Category I, II & III
16. Hindu Undivided Family (HUF)
    - HUF - Promoter
17. Investor Education and Protection Fund (IEPF)
18. Qualified Institutional Buyers (QIBs)

    - Public Financial Institution – Sec.2(72) of Companies Act 2013
    - Venture Capital Fund Registered with SEBI
    - Multilateral Development Financial Institution
    - Bilateral Development Financial Institution
    - State Industrial Development Corporation
    - Insurance Company Registered with IRDA
    - Provident Fund - Corpus Rs. 25 crore & more
    - Pension Fund - Corpus Rs. 25 crore & more
    - National Investment Fund – Govt. of India
    - Insurance Funds – Armed Forces – Govt. of India
    - Insurance Funds – Department of Post India
    - Systemically Important NBFCs

19. Stock Broker (Individual)

    - TM – Client Securities Margin Pledge Account
    - CM – Client Securities Margin Pledge Account
    - TM / CM – Client Securities Margin Pledge Account

20. Stock Broker (Corporate)

    - TM – Client Securities Margin Pledge Account
    - CM – Client Securities Margin Pledge Account
    - TM / CM – Client Securities Margin Pledge Account
    - TM – Client Securities Under Margin Funding Account

21. PCM

    - CM – Client Securities Margin Pledge Account

4.3.4 Opening of pool account for Portfolio Management Services (PMS)

DPs have been advised to facilitate the opening of a Pool Account for the Portfolio Management Service (PMS) Provider similar to Clearing Member Pool Account after which transfers from/to the PMS Pool Account would be considered as Market Transfers instead of "Off Market" transfers.

Opening of PMS Pool Account:

For opening of PMS Pool account, the PMS provider will be required to make an application to their Participants. PMS provider is required to open Pool account(s) per Clearing Corporation (CC) viz., NCL, ICCL, MCCIL. Further, if PMS provider require, they can open scheme wise PMS pool account per CC.
PMS Provider will be required to make an application to Participant for opening of PMS pool account(s) by submitting the application form. If PMS provider is opening the PMS pool account(s) with the existing Participant, then no additional documents will be required to be enclosed along with the application form. However, if PMS Provider opts to open PMS pool account(s) with any other Participant, then PMS Provider will be required to follow the process of Clearing Member Pool account opening prescribed by the depositories.

In case of NSDL, PMS provider will submit request letter to Participants for obtaining PMS BP ID for opening PMS pool account(s). Single request letter from PMS provider is sufficient for opening multiple Pool accounts, if the authorized signatories are same for all the PMS pool accounts. On request of Portfolio manager for PMS BP ID(s), NSDL shall use the details viz., demographic, financial, authorized signatories etc. of existing Portfolio Manager account(s) (i.e, demat account(s) of PMS provider) maintained in NSDL depository system and create the PMS BP ID(s) in NSDL depository system. If the existing PMS account holder is registered on SPEED-e facility and the new PMS pool account holder wish to opt for SPEED-e facility for operating the PMS pool account, then the PMS provider will provide the confirmation to Participant. Based on the aforesaid request received from PMS provider, Participant will send consolidated excel sheet containing the PMS provider details for opening of PMS pool account to NSDL. As per the confirmation received from the Participant through aforesaid email, the PMS BP ID(s) for PMS pool account would be activated in NSDL depository system using the details of existing PMS demat account(s) maintained in NSDL depository system. The details of PMS pool account(s) would be forwarded to the Participant for opening of PMS pool account(s).

In case of CDSL, the PMS registration number provided by SEBI needs to be mandatorily be recorded when making the application. Easiest registration procedure for PMS Pool Account, will be similar to the registration procedure of a CM Account. Further the details of market types and

the transfers allowed from/to PMS Pool Account through the easiest login will be similar to the CDAS functionality. PMS Manager will be allowed to group its multiple PMS Manager Pool Accounts opened for different CCs/Schemes from its Easiest PMS Pool Account (i.e. from primary login) provided that the multiple PMS Pool Accounts are having the same PAN and SEBI Registration Number recorded in the said demat accounts. After grouping through the PMS Pool Account the PMS Managers are required to submit the duly signed grouping form to their respective DPs where such PMS Pool accounts are maintained for authentication. PMS Manager can debit the securities from its PMS BO Account/s to its grouped PMS Pool Account/s and can also transfer the securities from such grouped accounts to its PMS BO Accounts.

4.3.5 Rights and Obligations of Beneficial Owner and Depository Participant

Anyone who wants to avail the depository services should submit the acknowledgement of receipt of the copy of the Rights and Obligation document (of having read) to the DP. The standard format of the Rights and Obligation document is provided by SEBI and forms a part of the depository participant operating instructions. The Rights and Obligation document sets out in contractual form the nature of services to be provided, rights and obligations of the DP as well as the client, and the fees/charges payable for the services. The Rights and Obligation document and the acknowledgement needs to be made on a plain paper and has to be signed by:

(a) Sole holder in case of single holding; or
(b) All joint holders in case of joint holding, or
(c) Constituted attorney (authorised signatories) in the case of corporate/registered trust accounts.

FPI clients registered with SEBI and who have entered into an agreement with the DP directly or through their constituted attorney, are not required to submit acknowledgement of Rights and Obligations document. The FPI-DP agreement authorizes the DP to act on behalf of the FPI for availing depository services and it should have been filed with SEBI.

In NSDL, subsequent to opening of a depository account, certain information such as Client Master Report alongwith including charge structure is required to be provided to the Client.

a) The Client Master Report and the scanned copy of the charge structure is provided to the Client at the e-mail address recorded in the DP system. In case the DP is not able to provide the same to its Clients by e-mail due to any reason (including bounced e-mails), the DP should ensure that the same is provided to the Client in paper form.
b) Maintain the records of delivery/non-delivery of e-mails to Clients.
c) When the Client provides e-mail address at the time of account opening, inform the Client that such information will be sent by e-mail to the Client.
d) In case the Client has opted for DIS booklet alongwith account opening or in case of BSDA, the DIS booklet must be separately issued to the Client.

In CDSL, subsequent to opening of a depository account:

- The DP shall send the BO a system-generated confirmation letter for having opened the account mentioning the account number along with the formats of necessary forms and instruction slips. This letter shall be given to the BO and the DP shall maintain proof of such despatch. The letter along with other documents mentioned earlier may also be given to the BO if the BO wants to collect the same in person. Proof of such delivery shall be maintained by the DP.
- Alternatively, the client master report may be provided by the DP to the BO at the e-mail address recorded in the CDSL system or through its website, provided the same can be accessed by the BO through secured access, e.g. Login ID-Password / three factor authentication. In case the DP is not able to provide the same by e-mail/ the BO cannot access the same through its website due to any reason (including bounced e-mail), the DP should ensure that the same is provided to the BO either physical copy or digitally signed in case of electronic copy. The DP should maintain record of delivery/ non-delivery of the e-mail to the BO or accessing of the information by the BO through its website.
- The BO should be informed at the time of account opening that such information will be made available through e-mail /website, as the case may be. In case DIS booklet is required to be sent to BO, it must be separately issued to the BO.
- A BO may have an on-line trading account and give /execute a power of attorney (POA) in favour of the CM for executing delivery instructions for settling stock exchange trades effected through such CM or a BO may be a PMS client of a PMS manager and give / execute a power of attorney (POA) in favour of the PMS manager or execute a PMS agreement with an authority to PMS manager to manage the portfolio of securities. In such a case, the BO may be given option to receive the Delivery Instruction Slip Booklet (DIS) on the DP completing the account opening procedure or at any later date on request by the BO. The BO can exercise such option by submitting an 'Option Form for issue of DIS booklet', as specified in DP Operating Instructions, which shall be given to the intending-BO along with the Account Opening Form. A written consent shall be obtained from BO in case BO agrees to waive off the right to receive DIS at the time of account opening and opts to receive it at a later date.

Simplification of demat account opening process[14]

In consultation with market participants, with a view to simplify the account opening kit, it has been decided that, stock broker/ depository participant shall make available the standard documents [15] to the clients, either in electronic or physical form, depending upon the preference

[14] SEBI Circular Ref. No.: CIR/MIRSD/64/2016 dated July 12, 2016

[15] (a) Rights & Obligations of stock broker, and client for trading on exchanges (including additional rights & obligations in case of internet/ wireless technology based trading); (b) Rights and Obligations of beneficial owner

of the client as part of account opening kit. The preference of the client shall be sought as part of the account opening form. In case the documents are made available in electronic form, stock broker/ depository participant shall maintain logs of the same.

4.3.6 Types of Application Forms

Different application form needs to be filled for each kind of accounts. A DP must understand clearly the differences in the application forms, to facilitate efficient and error-free service to investors. Separate forms are prescribed for individuals and corporate clients/clearing member accounts.

The forms prescribed by the Depository's require the applicants to give the following details:

(a) ***Name(s) of account holder(s)***: DP should ensure name & address of the applicant mentioned on the KYC form, should match with the documentary proof submitted. If an application is received from a married lady, along with a PAN card in her maiden name along with her marriage certificate, the BO account can be opened in the married name of the lady. In CDSL, by filling up transposition form, the share certificates with same holders but in different order can be dematerialised. Investors are advised to open their account in their fully expanded name, i.e., to spell to the first name as well as the middle name. This would obviate any doubts about the veracity of the information. Investors can dematerialise all physical securities held in his full name, abridged name, name with initials or any other fashion in this account. By opening the account in the fullest/expanded name, chances of wrong credits/debits and rejection of demat requests are minimised. For example, there may be two investors with the same initials and same last name - A K Khanna may be either Arun Kumar Khanna or Ashok Kishore Khanna. If the name is fully spelt out there is no ambiguity and there is no need then for the DP to take steps to verify the identity. Similarly, investor can dematerialize shares held in any form of name like A.K. Khanna, Arun K. Khanna, A. Kumar Khanna, Arun Kumar K., etc., into one account

(b) ***Mailing and communication address(es)*** - Client has the facility to mention two addresses in the KYC application form (Part I) i.e., correspondence and permanent address. For both, permanent and correspondence addresses of a Client, DPs should ensure that they collect and verify the KYC documents. The correspondence address would be the default address that would be forwarded to the Registrar & Transfer Agent (RTA) as well as used for printing Transaction Statement (SOT) from Depository System.

For corporate accounts, a copy of Memorandum of Association, Articles of Association, Certificate of Incorporation Board resolution permitting opening of account, the registered address of the Company as well as addresses of the person(s) authorised to

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and depository participant as prescribed by SEBI and depositories; (c) Uniform Risk Disclosure Documents (for all segments/ exchanges); and (d) Guidance Note detailing Do's and Don'ts for trading on stock exchanges

operate the account on behalf of the Company have to be furnished. PAN card of authorised signatories to be "verified with original" and taken on record. In case of CDSL, addresses of the person(s) authorised to operate the account on behalf of the company need not be furnished. Also in case of CDSL, PAN card of authorised signatories need not be verified with the originals or maintained for record purpose.

(c) ***Details of guardian in case account holder is a minor*** - The guardian holds and operates the beneficial owner account held on behalf of the minor till he/she becomes a major. The guardian is required to sign the application form and details of his name and address need to be given in addition to the details of the minor.

(d) ***Foreign address and RBI approval details for NRI, FPI or OCB accounts*** - For foreign based clients like NRIs, FPIs, etc., the DP must obtain original or attested copies of the power of attorney as the case may be and the approval letter from RBI permitting them to invest (this is not required in CDSL). If the account holder is an FPI or an OCB, SEBI/RBI registration details along with attested copy of registration certificate issued by SEBI and authorisation letter is required.

(e) ***Clearing member details for a clearing account*** - A broker account as a clearing account can be opened only after the depository approves it and allots clearing-member business partner identification number (CM-BP-ID). However, the concept of a separate CM-BP-ID is not followed by CDSL. A broker member can have only one clearing account per stock exchange of which he is a member[16]. The DP should obtain, with the account opening form, the necessary details from the clearing member along with a letter from the Clearing Corporation allotting a CC-CM-ID. In case the clearing member account is being transferred from any other DP, a no-objection certificate from the earlier DP may be obtained. A Clearing Member may open only one CM Account. However, a Clearing Member may open additional CM Account(s) with the Participant for the purpose of Futures & Options (F&O) and / or Securities Lending and Borrowing Mechanism (SLBM) transactions and the Clearing Corporation shall allot additional CC-CM-IDs to the Clearing Member for this purpose. This is not applicable in NSDL, as Clearing Members maintaining CM Accounts with DPs of NSDL can open and maintain only one CM Account per stock exchange.

(f) ***Escrow Account*** - An Escrow Account can be opened by the DP based on receipt of the following document from the BO.

- DP has to obtain the KYC form / KRA details of entity that is opening the account (RTA

[16]In CDSL system a broker / clearing member of BSE is required to open following accounts with any DP of CDSL viz., CM Principal Account, CM USA (Pool) account, Clearing Members of NSE and other stock exchanges are required to open, with any DP of CDSL, a CM Clearing account or Pool account. Additionally, the CM has to open an Early Pay-in account with CH /CC of the respective stock exchange. All of the above mentioned account type will be referred to as CDSL CM accounts in this workbook.

/ Clearing Member / Manager to the Issue).

- The photographs of the authorized signatory (ies) who would be operating the account.
- PAN card of both parties' i.e. 'Corporate Entity & Escrow Agent'. The PAN details of the Corporate entity would have to be captured in the CDSL system.
- Copy of the Escrow Agreement duly signed by the parties.

Procedure for opening Escrow account:

The escrow account shall be opened in the name and form of < Issuer name> - <Reason for opening the escrow account>-operated by-<Operator Name> for e.g. Infosys Technologies Ltd. – Buyback Account - Operated by – Karvy Consultants Ltd.

The photographs of authorized signatories who will be opening the account as well as who will be operating the account along with name, designation shall also be obtained.

The escrow account shall be active for the limited period of the activity for which it has been opened. Such period shall be as specified by SEBI / CDSL or any such regulating authority from time to time. After the specified period is over the account shall be closed by the DP irrespective of whether the closure instruction is received from the account holder or not.

(g) ***Details of bank account***: Details of bank account of the account holder, including the 9-digit code number of the bank and branch appearing on the MICR cheques issued by the bank have to be filled in the application form. Companies use this information for printing them on dividend/interest warrants, etc. DPs can accept any one or more of the documents given below can be accepted as proof of bank details:

a) Specimen copy of cheque/cancelled cheque
b) Copy of Bank Statement
c) Copy of Bank Passbook
d) Letter from Bank

The aforesaid documents must contain the following information to be acceptable as proof for bank details:

a) Bank Name
b) Branch Address
c) IFSC/MICR code
d) Name of account holder
e) Account Number

Participant need not seek from their Clients the proof of the bank details for capturing the bank details in the depository account, if they have direct access to the bank records for verification of the bank details provided by their Clients.

Verification of bank account details through Bank Account Verification services

Participant need not seek from their Clients the proof of the bank details for capturing those details in the depository account, provided they have direct access to the bank records for verification of the bank details provided by their Clients.

This Bank Account Verification service typically involves transferring ₹1 via IMPS to the bank account of the client and upon successful transfer, name of the client in the target bank account is received as response. Participant shall match the name of the Client with the name and other details received from the bank.

In this context, Participants shall use the services of banks in this regard for verification of bank details of client, subject to following conditions:
1. Participant will be responsible for identifying the client & updating the bank details.
2. Participant will maintain the records of the verification done through bank API platform and the same are made available for audit/inspection, as and when called for.

(h) ***Details of Income Tax Permanent Account Number (PAN):*** SEBI has made the requirement of PAN as a mandatory requirement for demat account opening. It was decided that the Depositories will issue directions to DPs making Permanent Account Number (PAN) compulsory for all categories of demat account-holders including minor, trust, foreign corporate body, banks, corporates, FPIs and NRIs. This is applicable for existing accounts as well as new accounts to be opened. In cases where the existing demat account holder(s) have failed to submit the PAN details to the DPs by December 31, 2006 or there are discrepancies in the PAN details that have not been resolved by December 31, 2006, such accounts have been 'Suspended for Debit' until PAN details are verified and updated at the depository system application software. It was also decided that the staff of DPs should personally verify the identity and address while opening demat accounts and the record of the person who carried out such verification should be available.

(i) Further SEBI has issued Circular dated July 29, 2010 which stipulates that with effect from Monday, August 16, 2010, PAN non-compliant demat accounts shall also be “suspended for credit” other than the credits arising out of automatic corporate actions. The circular

also clarifies that other credits including credits from IPO / FPO / Rights Issue / Off-market transactions or any secondary market transactions shall not be allowed into such accounts.

(j) In view of the aforesaid SEBI decision, DPs are required to follow below mentioned procedure for PAN Compliance:

a. In respect of accounts that are to be opened:
    i. DPs should obtain a photocopy of the PAN card of the person(s) seeking to open the account and verify the same with the original PAN card.
    ii. The DP official should personally verify the identity and address of each of the applicant while opening demat accounts and the record of the person who carried out such verification should be maintained.
    iii. Further, the name of demat account holder(s) should be compared to the name appearing on the website of the Income Tax Department (ITD).
    iv. In case the name(s) do not match or the PAN is not present in the Income Tax database, DP should seek necessary clarification from the account holder(s) and activate such accounts in the depository system only after the discrepancy is resolved.
    v. In case of joint accounts, the PAN of each of the joint holder should be captured in the depository system after making verification as explained above.
    vi. After verifying the details of PAN as mentioned above, the DP officials should affix a stamp as 'PAN verified', on the photo copy of the PAN card(s).

b. In respect of existing accounts that are frozen due to non-compliance of PAN requirement upon the Client submitting the PAN card, DPs should follow the procedure in the below given sequence:
    i. Verify the PAN details as per the laid down procedure mentioned in points (iii) to (vi) above,
    ii. Update the PAN field and *enable the PAN flag provided in the depository system application software*
    iii. Remove the suspension by initiating unfreeze instruction and ensure that the status of the unfreeze instruction is 'Closed, Settled' prior to executing any other instruction in the system.

Operating guidelines on SEBI circular providing clarifications on PAN

Further to the clarifications issued by SEBI (given in italics below), DPs have to follow below mentioned additional operating guidelines /clarifications with respect to capturing of PAN details:

a. As regards proof of address of FIIs/sub-accounts, a copy of the Power of Attorney (POA) given by the FIIs/FII sub-accounts to the Custodians (which are duly notarised and/or apostiled or consularised) that gives the registered address of the FIIs/sub-accounts can be accepted as proof of address.
b. The NRIs/PIOs[17] would be required to comply with the mandatory requirement of producing PAN Card at the time of opening a BO account. However, in case of account opened/ to be opened under category NRI/FII in respect of clients not residing in India, the DPs can accept the photocopy of the PAN card of NRI and Foreign national client and follow the procedure laid down for verification of PAN above, provided the copy of the PAN card is duly signed by the account holder and attested by any one of the following entities of the country where NRI and FN is residing:
   - The Indian Embassy / Consulate General
   - Notary Public
   - Any Court / Magistrate / Judge
   - Local Banker,

   The attestation is to the effect that it has been verified with the originals.
   Further, a NRI/foreign national is exempted from obtaining attestation in the photocopy of the PAN card as mentioned above, *provided*, if he/she personally visits the office of the DP to submit the PAN card to comply with the PAN requirements. In such a situation, the DPs will accept the photocopy of the PAN card and verify the PAN details as per the procedure laid down for verification of PAN.
c. U.N. entities/multilateral agencies which are exempt from paying taxes/filing tax returns in India are exempted from the mandatory requirement of PAN. The exemption, however, would be subject to the DPs associated with NSDL collecting documentary evidence in support of such claim of the investors. After these DPs are satisfied that such entities are exempt from paying taxes/filing tax returns in India, DPs are advised to capture the appropriate PAN exemption codes provided by the depository systems.
d. In case of Association of Persons (AoP), Partnership Firm, Unregistered Trust, etc. though the BO account would be in the name of natural persons, PAN of the respective AoP, Partnership Firm, Unregistered Trust, etc shall be obtained.
e. As regards Registered Trust, Corporate Bodies and minors, PAN of the respective entities shall be obtained when accounts are opened in their respective names.
f. In case where there is difference in the maiden name and current name of the investor (predominantly in the case of married women), DPs can collect the PAN card proof as submitted by the account holder. However, this would be subject to the DPs verifying the veracity of the claim of such investors by collecting sufficient documentary evidence in

[17] In case of CDSL, PIOs falls under the category of Foreign Nationals.

support of the identity of the investor (reference to prescribed documents by SEBI, to be made as on page 2, under head - Documents for Verification - (a) Proof of Identity).

g. In case of change of residential status of BO, the DP can modify the status and sub-status of the existing demat account from Individual status to NRI non- Repatriable vice versa or NRI Repatriable to Individual account / NRI non- Repatriable but the change of status/sub- status from Resident Individual, NRI-non Repatriable to NRI Repatriable is not allowed.

In all above cases appropriate documentation has to be provided by the account holder.

Operating guidelines for the same are given below:

a) This guidance given by SEBI may also be used whenever there is a minor difference in the name mentioned in the PAN Card and the name in which the account is opened / sought to be opened.
b) Photograph of person appearing on the PAN card can be compared to the account holder and/or the photograph submitted by the account holder along with the application form. Father's name if available on the application form can be compared to the father's name appearing on the PAN card of the account holder.
c) DPs should call for any additional documents and / or clarification to ascertain and satisfy itself about the identity of the entity, as clarified in the SEBI circular.

Linking of Demat Accounts of Individuals with their Aadhaar

The Union Budget 2017-18, proposed the linking of individual demat accounts with Aadhaar. Accordingly, SEBI instructed depositories to advise their Participants to take necessary steps for linking of demat accounts held by individual clients with their Aadhaar numbers. In view of this, in respect of all new accounts opened, Participants may advise clients to mention their Aadhaar in the Know Your Client (KYC) Application Form submitted at the time of account opening, especially by highlighting the advantages such as registration in the demat account of unique identity provided by Aadhaar, Government's initiative of linking of PAN with Aadhaar, Aadhaar being a single document serving as proof of identity and address, etc. A self-certified copy of the Aadhaar Card may be obtained as part of the KYC process.

Participants shall encourage all their existing individual clients to provide their Aadhaar number to link with their demat account. Participants may send regular communications to their clients for updating their Aadhaar number in the demat accounts.

NSDL provided an online facility for demat account holders to update their Aadhaar number directly in their demat accounts at NSDL, which would be authenticated directly with UIDAI. The said facility can be accessed from https://aadhaar.nsdl.com/AdhaarSeeding/

The law regarding submitting / linking of Aadhaar for availing the services / benefits applies to the resident as per the Aadhaar Act, 2016. In view of the foregoing, most of the NRIs/PIOs/OCIs may not be eligible for Aadhaar enrolment as per the Aadhaar Act, 2016. However, the implementing agency may devise a mechanism to ascertain the genuineness of status of such NRIs/PIOs/OCIs.
In order to enhance privacy and security of Aadhaar Holders, Unique Identification Authority of India (UIDAI) had introduced VID which is 16 digit numeric field which can be used by Aadhaar holder in lieu of his/her Aadhaar number to avoid need of sharing of the Aadhaar at the time of authentication. In this context, NSDL has introduced new field viz., VID as against Aadhaar number under the client maintenance module in system.

DPs are required to follow the RBI Circular no. RBI/2020-21/82 dated January 05, 2021, regarding Introduction of new field Legal Entity Identifier [LEI] which is a 20 character alpha numeric code used to identify parties for Large Value Transactions i.e. for value of transaction ₹50 crore and above or as defined by RBI are undertaken by entities (non-individuals) across all payment transactions, DPs are required to capture the same in the demat account wherever applicable.

FATCA Compliance:

'The Inter-Governmental Agreement (IGA) with USA for implementation of FATCA entered into force on 31st August 2015. Under the alternative procedure provided in Rule 114H(8) of the Income Tax Rules, 1962, the financial institutions need to obtain self-certification and carry out due diligence in respect of all individual and entity accounts opened from 1st July 2014 to 31st August 2015. Such self-certification and documentation was required to be obtained by the financial institutions by 31st August 2016, otherwise they were required to close the accounts and report the same if found to be a "reportable account" as per the prescribed due diligence procedure for pre-existing account.
In view of the difficulties highlighted by stakeholders in following the provision for "closure" of financial accounts, it was informed vide Press Release dated 31st August 2016 that the financial institutions may not close the accounts by 31st August 2016 in respect of which self-certifications have not been obtained under the alternative procedure and a revised time line shall be notified in due course. The financial institutions were also advised to continue to work on completing the required due diligence, including obtaining self-certifications. Queries are being received from the financial institutions regarding the revised time lines for completion of due diligence. The financial institutions are advised that all efforts should be made by the financial institutions to obtain the self-certification. The account holders whose self-certifications were not provided till 30 April 2017, those accounts would be blocked, which meant that the financial institution would prohibit the account holder from effecting any transaction with respect to such accounts. The

transactions by the account holder in such blocked accounts would be permitted once the self-certification is obtained and due diligence completed.

Nomination declaration - A beneficial owner can make a nomination of his account in favour of any person by filing the nomination form with his DP. Such nomination is considered to be conclusive evidence of the account holder(s) disposition in respect of all the securities in the account for which the nomination is made. The nomination form submitted should be in the format prescribed by the Depository in its Bye-Laws and Business Rules / Operating Instructions.

SEBI, vide circular no. SEBI/HO/MIRSD/RTAMB/CIR/P/2021/601 dated July 23, 2021 had mandated submission of nomination details/declaration for opting out of nomination for investors opening new trading and or demat account(s) on or after October 01, 2021. The circular also prescribed mandatory furnishing of the aforesaid information for all existing eligible trading and demat account holders.

Para 2 of the said circular reads as follows: "Investors opening new trading and or demat account(s) on or after October 01, 2021, shall have the choice of providing nomination or opting out nomination

Further, para 7 of the said circular reads as follows: "Further, all existing eligible trading and demat account holders shall provide choice of nomination as per the option given in paragraph 2 above, on or before March 31, 2023, failing which the trading accounts shall be frozen for trading and demat account shall be frozen for debits."

Requirement mentioned at para 2 read with para 7 with respect to re-submission of nomination details shall be optional for the existing investors who have already provided the nomination details prior to issuance of the aforesaid circular.

Existing investors who have not submitted nomination details till date (June 30, 2024) and intend to submit their nomination or opt out of nomination (not to nominate any one) may also be allowed to do so by way of two factor authentication login on the internet trading platform for Stock Brokers/Depository Participants providing such services.

4.3.7 Forms for Hindu Undivided Family (HUF)

SEBI's Master Circular No. CIR/MRD/DP/13/2013 dated April 15, 2013, point no. 4.6 stated that 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.

The depository account of an HUF will be opened in the name of HUF entity as it appears on the PAN card of the HUF entity. DPs should clearly designate the account in the name of the HUF entity as such. Pan card details of both the HUF entity and Karta of the HUF shall be obtained

from the Beneficial Owner and bank account proof of HUF should be obtained. The form for opening a HUF accounts is the same as the non-individual account. While opening such accounts the DP should select the 'HUF' sub-type in the HUF category of account opening. HUF accounts cannot be opened with joint holders.

4.3.8 Forms for Companies

A company, being an artificial person, can open a demat account, provided its memorandum authorizes it to make investment in the securities of other companies. A demat account in the name of a company should be operated by the person(s) authorised by a resolution passed by its board of directors. The DP should obtain an attested copy of the memorandum and board resolution, authorizing the opening and mode of operation of the demat account.

4.3.9 Forms for Minors

A minor may hold shares through his guardian. Accordingly, a minor may open a depository account only through his guardian. Procedure for opening minor account is as follows:

I. Procedure to be followed by DPs for opening demat account of minors:

a. Obtain photocopy of the School Leaving Certificate/Mark sheet issued by Higher Secondary Board/Passport of Minor/Birth Certificate.
b. Obtain Proof of Identity, Proof of Address, PAN and the photograph of the Guardian as per the procedure stated in the bye-laws and circulars. Carry out 'in-person' verification of the Guardian.
c. Account opened in the name of minor should not have joint holdings.
d. Two KYC Application Forms must be filled i.e. one for the guardian and another for the minor (to be signed by guardian).
e. In case minor account, PAN details of the minor should be captured by the DP in the Depository System after due verification.

II. The procedure to be followed by DPs in cases where Minor Clients have attained Majority (i.e. 21 years of age in case of Minor whose Guardian is court-appointed or 18 years where Minor's account is represented by a natural guardian) is as under:

1. Ascertain the cases where Minors have attained Majority.
2. Communicate to the Client (Minor attained Majority) immediately advising him/her to submit a fresh account opening form alongwith necessary KYC documents and PAN card alongwith photograph of the Client.
3. In case of NSDL, suspend the account for debit and disable the standing instruction for credit pertaining to the account of Minor. In case of CDSL, such account is automatically suspended for debits.

4. Verify the account opening form along with necessary KYC documents and PAN as mentioned under point no.2 herein above.
5. Capture the new demographic details in the depository system after due verification of same
6. Capture the signature of the Client (Minor turned Major) in the system in place of the signature of the Guardian (captured earlier).
7. Obtain a fresh acknowledgement copy of the Rights and Obligation document from the BO.
8. Select "None" or "Nominee" as the case may be in the field 'Nominee/Guardian' in the depository system to disable the entire Guardian details in the said account. If "Nominee" is selected enter the nomination details. This procedure is not applicable in CDSL. If the minor turned major intends to continue with the same account, then the guardian details are to be deleted and Nomination, if given by the client is to be recorded in the system.
9. Any request or instruction from the guardian, which are to be processed or is having execution date falling on or after the date the Minor has turned Major, shall be processed/executed only after receipt of confirmation from the Client (Minor turned Major).
10. Client (Minor turned major) but account is suspended for debit for non-compliance with PAN requirement: The procedure mentioned in point nos. 1 to 8 above needs to be followed. The PAN details need to be captured in the depository system and the Pan flag should be enabled
11. In case of accounts already suspended in where Clients have not responded- The procedure as mentioned under point 2 to point no. 8 is to be followed.

4.3.10 Partnership Firms

Partnership firm cannot be a member of a company under the provisions of Companies Act. Thus a depository account cannot be opened in the name of a partnership firm. All the partners of the firm, however, can sign as joint holders, and a joint account may be opened in the name of the proprietor or partners [Maximum 3 partners]. An exception to this is given for opening a CM Account. The CM account can be opened for broker firms since partnership firms are allowed to become members of a stock exchange.

Procedure for opening an account in the name(s) of Partners for holding securities that belong to the Partnership firm:

a. Copy of the balance sheets for the last 2 financial years (to be submitted every year).
b. Certificate of registration (for registered partnership firms only).
c. Copy of partnership deed.

d. Authorised signatories list with specimen signatures and photograph.
e. Photograph, POI, POA, PAN of Partners.
f. The account should be opened only in the names of Partners, operated by the partners and the securities that belong to the Partnership Firm can be held in this account.
g. Obtain an undertaking in the prescribed format from the Partners to the effect that the Partners would comply with the provisions of the Companies Act and other applicable statutes in respect of securities of the Partnership firm held in the account opened in the names of the Partners.
h. Where the depository account would be opened in the name of individuals, carry out the 'in-person' verification of such individuals and record the details of IPV as per the current procedure.
i. As per CDSL operating instructions, partnership deed is to be taken on record.

4.3.11 Signatures/Thumb Impression

The account opening form should be:

- signed by the sole holder, in case of single holding;
- all joint holders, in case of joint holding;
- authorised signatories, in the case of corporate accounts;
- by guardian, in case of a minor; or
- Both CDSL and NSDL require that the account opening form be signed by the NRI. This account can be operated under signature of account holder(s) or a Power of Attorney Holder. However, according to the CDSL operating instructions, accounts cannot be opened / closed under signature of power of attorney holder.

Mode of capturing of signature in the depository system for DPs of NSDL and CDSL :

a. The DP should capture the Client's signature(s) as given in the KYC Application Form and/or Account Opening Form in the Depository System. For non-individuals alongwith signature of authorised signatory(ies), capture the mode of operation in the depository system.
b. In case the trustee(s)/ partner(s) etc. are individuals, capture the signature(s) of the individuals. In case the trustee(s)/ partner(s) etc. of the unregistered trust/ partnership firm are corporations, companies or entities registered under The Indian Societies Registration Act, 1860, or under the provisions of a state Act such as Bombay Public Trusts Act, 1950 or the relevant State Public Trust Act, capture the signature(s) of the authorised signatories in the depository System. For trust which is an incorporated body, if client informs about the non-applicability of the relevant Public Trusts Act or the Indian Societies Registration Act, in its specific case, then the applicant may be facilitated to hold the beneficial owner account, as proposed, on submission of a certificate obtained by the

client as per Section 12AA of income tax, 1961. In addition to the above, Participants are advised as follows:

(i) Open the depository account under the category and in the name of trust.

(ii) Obtain copy of Registration Certificate issued by the Income Tax Authorities as per Section 12AA of income tax, 1961.

(iii) Obtain certified copy of the resolution passed by the Board of Trustees giving the names of trustee(s) authorised by the Board of Trustees to open and operate the depository account,

(iv) Obtain certified copy of the latest income tax returns filled by the trust.

c. Illiterate Person: A remark should be put in the depository System (under the authorised signatory details under "Signatories" screen) at the time of opening the account that the account holder is illiterate or disabled.
d. Visually Challenged Person: Any visually challenged person can open and operate the demat account including online facility like any other investor, subject to compliance with requirements as applicable to any investor. The additional steps required to be taken by the Participants in case of visually challenged persons are:

    1. If so requested by the client, the Participant should read out and explain to the Client, the contents of the account opening form and rights and obligations document.
    2. A remark should be put in the system (under the authorised signatory details in 'signatories' screen) that the Client is "Visually Challenged".
    3. Delivery Instruction Slip issued to such Clients should be pre-stamped as "Visually Challenged"

In NSDL, if the signature is in any language other than those specified in the Schedule VIII to the Constitution of India or English, it should be attested by a Magistrate or a Notary Public or a Special Executive Magistrate.

Process of Opening an account of an Illiterate Person:

Illiterate person(s), at the time of opening an account with a Participant, must affix the thumb impression (*left hand thumb in case of a male and right hand thumb in case of a female*) on the Rights and Obligations document as well as on the account opening form. All accounts opened by illiterate person(s) with NSDL DPs must be either introduced by an existing account holder or must be attested by applicant's bank. CDSL however does not need an introducer for accounts to be opened by an illiterate person(s). The Client(s) must come in-person to open the account and submit instruction forms and affix his/her thumb impression in the presence of the official of the DP. The DP should identify the Client(s) by verifying the photograph submitted by the Client(s) and read out/explain the contents of the account opening form, Rights and Obligations document and delivery instruction form to the Client(s). In case of CDSL, the DP is not required to read out

the delivery instruction form to the client. The official of the DP should then put his signature and remarks "Details explained to the Client(s)", on the account opening form, copy of the Rights and Obligations document and delivery instruction form. In case such Client(s) is/are temporarily or permanently disabled due to which he/she cannot come in person to submit the instruction form as mentioned above, the thumb impression of the Client(s) on the instruction forms must be attested by a Magistrate or a Notary Public or a manager of the account holder's bank. Additionally, for NSDL DPs attestation by Special Executive Magistrate or a similar authority holding a Public Office and authorised to use the Seal of his office is also accepted. The Client should also produce a medical certificate about his/her disability. Further, the instruction forms issued to such Client(s) should be pre-stamped as "Thumb Impression". At the time of opening of account, the aforesaid rules should be explained to the Client(s) in the presence of a witness, who will have to sign the Rights and Obligations document and the account opening form, as a witness.

4.3.12 Client Account Number

On receipt of a valid application form which is complete in all respects and duly signed by the applicant, the DP should verify its contents to his satisfaction. If, after verification, the DP accepts the application and the Rights and Obligations document is signed, the DP has to enter the information on the application form into the depository participant system. The system then generates a client account number which should be referenced by the client for all its transactions in the depository system. The system also generates a report containing the details of client captured from the account opening form. The DP should provide a copy of account opening confirmation report to the client for his reference and verification about the correctness of details. The account number styles are different for different purpose. In case of CDSL, the account number has two parts, i.e., 8-digit DP-ID (identification number of Depository Participant) and 8-digit client account number. In the illustration below, the first 8 digit is the DP –ID and the last 8 digit the Client ID. Together this number is unique across depositories. After opening the demat account, the client master report should be sent to the client at the address given in the account opening form. As per CDSL operating instructions, a system generated confirmation letter for having opened the account should be sent to the BO along with other forms and instruction slips.

1	3	0	1	5	6	0	0	0	0	0	0	0	0	8	2

Similarly, an account with the NSDL will have 16 digit number with the first 8 digits indicating the DP-ID starting with IN300100 and the last 8 digits giving the client id i.e. 10005678.

I	N	3	0	0	1	0	0	1	0	0	0	5	6	7	8

4.3.13 Standing Instructions / Purchase confirmation waiver

A DP may register the transfer of securities to or from a beneficial owner's account only on receipt of instructions from the beneficial owner. No debit or credit can be given to the account of a beneficial owner without a due authorisation from such beneficial owner. However, for ease of operation and elimination of redundancies, a clause has been included in the standard format of Rights and Obligations document. This clause enables clients to give standing instructions to DPs, at the time of opening the account itself, for receiving securities to the credit of their accounts without any further instruction from them. These instructions are given as a part of the account opening form itself. Though not mandatory, it would be better to ask clients to specifically sign in the standing instruction column, to avoid any confusion at a later stage.

Box 4.2: Operation of demat accounts based on Power of Attorney

A demat account can also be operated by a ***Power of Attorney holder***. In this regard, it may be noted that –

(i) A Power of Attorney executed prior to the promulgation of The Depositories Act is valid and enforceable.

(ii) It is the responsibility of the DP to verify whether the Power of Attorney is adequate and sufficiently authorizing the holder of the Power of Attorney i.e., the done to operate the account of the beneficial owner.

However, it may be mentioned that a DP shall not obtain Power of Attorney (POA) from its client(s) as a requirement for opening a demat account. Further the following needs to be taken care of when executing a POA:

(i) POA Holder does not have the sole authority to operate the account;

(ii) Account holders who have executed a POA cannot be denied Delivery Instruction Slip (DIS) books;

(iii) DPs are not authorised to merge the securities kept under various accounts of the clients;

DPs must inform all the clients who have executed POA about any changes and obtain a written confirmation from the clients that they have taken note of the changes in the POA. It may also be mentioned that where a client has executed a POA, such depository accounts can be operated both by the client(s) as well as by the POA holder. Therefore, DPs should ensure that the signatures of the account holder(s) and the POA holder are captured in the depository participant system and DPs are required to provide DIS books to the clients who have executed a POA and allow the clients to operate their accounts as well.

While executing a PoA, authorization is given by client to the stock broker / stock broker and depository participant, to access the Beneficial Owner (BO) account of the client to meet settlement obligations of the trade executed by the client.
A separate document viz. 'Demat Debit and Pledge Instruction' (DDPI) has been introduced by SEBI in April 2022, under which the clients shall explicitly agree to authorize the stock broker/stock broker and depository participant to access their BO account for the limited purpose of meeting pay-in obligations for settlement of trades executed by them. The DDPI shall serve the same purpose of PoA and significantly mitigate the misuse of PoA.[18]

Further, DPs are required to maintain separate accounts of the clients, in conformity with Regulation 42 of SEBI (Depositories and Participants) Regulations, 2018. Lien on the securities can be created only as per Regulation 58 of SEBI Regulations and as per the procedure laid down in the Bye Laws and Business Rules of the Depository.

4.4 Clearing Member Account

SEBI constituted a committee on "Enhanced Supervision of Stock Brokers" which recommended guidelines on uniform nomenclature to be followed by stock brokers for Naming/Tagging of Bank and Demat Accounts and the reporting of such accounts to the Stock Exchanges/Depositories.

- 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.
- Currently, stock brokers are required to maintain demat accounts only under the following categories:

S.No.	Demat Account Category	Purpose of Demat Account
1	Proprietary Account	Hold Own Securities
2	Pool account	Settlement Purpose
3	Client Unpaid Securities Account*	Hold Unpaid Securities of Clients
4	Client Securities Margin Pledge Account	For Margin obligations to be given by way of Pledge/ Re-pledge
5	Client Securities under Margin Funding Account	Hold funded securities in respect of margin funding
6	Client Nodal Mutual Fund Overnight Scheme (MFOS) Account	Subscription/Redemption of Mutual Fund Overnight Scheme (MFOS) units
7	* Client Unpaid Securities Pledgee Account CUSPA	Hold Unpaid Securities of Clients

[18] SEBI circular SEBI/HO/MIRSD/DoP/P/CIR/2022/44 dated April 4, 2022.

The entities which are authorised to do pay-in and receive the pay-out from a Clearing Corporation (CC)/ Clearing House against trades done by them or their clients are known as clearing members (CM). All pay-in and pay-out transactions are carried out through their accounts. There are two types of clearing members:

- All the members of a stock exchange are clearing members; and
- Custodians who have been permitted by the stock exchange to act as a clearing member.

4.4.1 Procedure to Open a Clearing Member Account (settlement)

The steps undertaken to open the CM account are same as those of individuals. The difference lies in the type of form and details to be filled in and documents to be submitted. In NSDL, the major difference is that the clearing member has to first register itself with the clearing corporation and obtain a clearing corporation clearing member identification number (CC-CM-ID). The clearing account is identified by the combination of CC-CM-ID given by the clearing corporation, CM-BP-ID given by the depository and the Client-ID given by the DP. Before opening a clearing account, the DP should send to the depository the clearing member's account opening form, letter issued Clearing Corporation providing CC CM ID and copy of SEBI registration certificate. The Depository then allots the CM-BP-ID. Based on the CM-BP-ID so allotted, the account is then activated by the DP and Client-ID is generated. The date of opening of the account in depository participant system to the depository is electronically communicated. However, w.r.t CDSL, the concept of CM-BP-Id is not there and the system generates a 16 digit ID similar to the BO ID. The Clearing member accounts with CDSL can be opened by a DP just like any other demat account after the formalities as mentioned in the CDSL DP Operating instructions are fulfilled.

Details to be filled in the form are:

1. Name of the Clearing Member
2. Company's short name, if any
3. Address of the registered office, telephone number, fax number, e-mail, if any
4. Name and address of the authorised signatories, their designations and telephone numbers, status code, sub-status code
5. Bank account particulars, bank name and its branch, current account number
6. RBI reference number, RBI approval date (Not required in CDSL)
7. PAN/ GIR number
8. Signatures of Authorised signatories)

A separate enclosure has to be attached to the account opening form specifying the following details:

1. Name and address of the clearing member
2. Name and address of the clearing corporation
3. Clearing Corporation Id (CC-ID)
4. Clearing Member Id (CM-ID)
5. Stock Exchange clearing code
6. SEBI Registration number
7. Trade name
8. Copy of Board Resolution for authorised signatories should also be submitted.

Generally, there will be only one CM account per broker for a stock exchange. In CDSL a CM is required to open multiple accounts. The clearing account should only be used for clearing and settlement purposes and not for any other purpose, e.g., holding of securities. All the securities received in a settlement account should be transferred to respective beneficial accounts as soon as possible, but in no case later than the time prescribed by the depository/ stock exchange/SEBI in this regard. The opening of clearing member account constitutes a "standing instruction" to receive credits from the clearing corporation when there is a pay-out *(not applicable in case of NSDL)*.

4.5 Closure of Account

4.5.1 Closure on Client's Request

DP can close a depository account on receipt of an application in the prescribed format. The application should be made by the account holder or by all the joint holders. An account can be closed only when there is no balance in the account. In case, there is any balance in the account which needs to be closed, the following steps are followed:

(a) Rematerialisation[19] of all securities standing to the credit of the account at the time of making the application for closure; or

(b) Transferring the balance to the credit of another account opened by the same account holder(s) either with the same participant or with a different participant. This is applicable only if the client wants to avail of free transfer facility. Else to reduce the balance to zero, the client

[19]Rematerialisation is the process of issuing physical securities in place of the securities held electronically in the book-entry form with the depository. This concept would be dealt in with detail in the later section of this workbook.

may transfer the securities to any other account or deliver the securities for pay in of his market transactions.

However, where demat request(s) are pending for disposal for a long time in a demat account and the client desires to close such an account, the following procedure may be adopted by the client:

- Write a letter in the prescribed format to the Issuer (with a copy marked to its Participant and respective RTA), requesting for rejection of the pending dematerialisation request(s) and send fresh physical security certificate(s) to the Client directly.
- Enclose a copy of the dematerialisation request generated from depository participant system, duly signed & stamped by the Participant, alongwith the aforesaid letter to the Issuer.

On receipt of copy of the letter from the Client, the Participant may also take up the matter with the concerned Issuer and/or its RTA for rejecting the instruction expeditiously. After the pending dematerialisation request(s) is/are rejected by the Issuer and/or its RTA, the Participant can close the account of such Client.

Before closing the account, the DP should ensure that all pending transactions have been settled. The request for closure should be processed only after ensuring that there is no balance lying in the account. In case Participant is unable to close the account due to pending demat/ remat requests, ISIN in suspended status or due to open pledges, etc., the Participant should freeze the account i.e. “suspended for debit and credit”. In CDSL, account closure can be initiated even if balances are present in the account. CDSL system will change status of such an account to ‘TO BE CLOSED’ and close the account when all balances are reduced to zero. If a client makes a request for closure of accounts, DPs should provide the Statement of Transaction (SOT) to the Client for the period from the beginning of the quarter in which the account is closed till the date of closure. Further, the SOT should bear the words "Account Closed" and should be prominent. For this purpose, DPs can affix a rubber stamp or create a suitable system that will clearly show on the SOT that the account has been closed.

Online closure of client Account:

Constant technology evolution has taken place in the market and SEBI has allowed certain technological innovations to be used to facilitate online KYC process. In view of it, Participants which are offering online account opening facility provides the facility for online closure of demat accounts as per the specified guidelines issued by SEBI.

Facility for cancellation of long pending demat requests

In cases, where the clients have pending demat requests, Participants are not in a position to process the requests received from their clients for closure of accounts as certain Issuer companies are not confirming the requests for dematerialisation for a long time a facility for cancellation of pending demat request is introduced. The procedure in this regard is given below:

1. Client must submit a letter in prescribed format requesting to cancel the pending demat request in respect of those demat requests which are pending for more than 60 days.
2. Participant must submit a letter to the depository requesting it to facilitate cancellation of pending demat requests in prescribed format.

After the pending dematerialisation request(s) is/are rejected/ canceled, the Participant can close the account of such Clients.

4.5.2 Consolidation of Accounts

Some clients could have opened multiple accounts to dematerialize their shares held in multiple combination and sequence of names. However, they may not need so many accounts after they have dematerialised their shares and may want to bring all their share holdings into one or fewer accounts. This can be achieved by using normal off market transfer instruction.

4.5.3 Closure by DP

The DP may also initiate closure of a client's account if the client has defaulted in performing its obligations laid out in the Rights and Obligations document. The DP should give sufficient notice to the client before initiating closure of his account. In CDSL, a 30 days' notice is required. The notice should clearly state the reasons for closure of account. The process of closing account in such a case is the same as that of client-initiated closure.

4.5.4 Closure/Shifting of Clearing Account

A clearing member may transfer its clearing account from one DP to another DP. For this, simultaneously applications have to be made for closure of account to the earlier DP and for opening of new clearing member account to the new DP. On receipt of the application, the new DP forwards the application to the depository for approval. Once the application is approved, the new DP opens a new clearing account and intimates the depository about the new Client-ID. On receipt of intimation from the new participant, the depository advises the old DP to close the account. The old DP then closes the account and intimates the clearing member. All pay-out of securities, subsequent to closure of old clearing account takes place in the new account. The above procedure is specific to NSDL DPs. In CDSL, there is no requirement of approval of

depository in this category. In CDSL, the CM can close his clearing accounts with one DP and open the same with any other DP without any need of approval from CDSL.

4.5.5 Mass Shifting of Accounts

DPs may set up new centres as their business expands or to provide direct connectivity from different geographical locations. However, there may be several accounts from that location but the account may already have been opened in another DP module machine. For example, a DP may start operation from Delhi and may be servicing clients of Faridabad, Agra, Mathura, etc. When the DP finds enough business at Mathura, he may set up a direct connectivity machine at Mathura also. Depositories have provided a facility to shift in mass, all the Mathura accounts from Delhi in the above example to the machine at Mathura. This facility is called mass shifting facility.

SEBI in 2006 had decided that charges shall not be levied by a depository on DP and consequently, by a DP on a Beneficiary Owner (BO) when a BO transfers all the securities lying in his account to another branch of the same DP or to another DP of 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.

Further, DPs are required to follow the below mentioned procedure in this regard:

The client submits an account closure request in the format as specified by the depository, duly filled & signed by the account holder(s) along with duly certified (signed and stamped) Client Master Report (CMR) in case of physical copy or digitally signed in case of electronic copy obtained from the target DP with whom the client has opened a new account or maintains an account. In case of inter-depository transfers, apart from what has been stated above, the client should submit the CMR in a crystal format duly certified (signed and stamped) by the target DP or if CMR in crystal report format is not available, the target details should be certified (signed and stamped) by the other depository.

1. DPs should verify the documents submitted by the client and if found in order, the DP shall effect the transfer of securities.
2. After transferring the securities, the serial number(s) pertaining to unused DIS should be permanently blocked in the back office system of the Participant and the account of the client should be closed. In case, the DP is unable to close the account due to pending demat/remat requests, ISIN in suspended status, fractional position or due to open pledges etc., the Participant shall freeze the account i.e. 'suspended for debit and credit' in case of NSDL and for CDSL it gets converted `To be closed‘ status.

3. DPs should make a request to the depository, seeking credit for the transaction fees pertaining to account closure cases, with supporting documents as detailed above. In case of CDSL if the transfer is effected through the Transfer module, no charges are levied. At NSDL the processing of Account Closure request should be processed through 'Transfer of Holding' module only where the target account is in NSDL. Application needs to be made for waiver only in case of shifting of accounts through inter depository and transfers to legal heirs and nominees in case of NSDL. 'Transfer of Holding' module facilitates DPs to execute "Account Closure" instruction through Transfer of Holdings (Account Closure) module wherein securities held under free balances as well as Locked-in balances lying under source depository account can be transferred to target depository account in NSDL depository system. It also facilitates DPs to transfer securities for which maturity date has expired from the source depository account to the target depository account where both source and target depository accounts within NSDL depository system are of the same person.

The features of the same are given below:

1. Upon execution of Account Closure instructions through transfer of holdings module, in case there are any securities wherein maturity date has expired in the source depository account, such securities will be moved to the target account provided:
   a. PAN flag is enabled in both source and target depository accounts.
   b. PAN in the source depository account and target depository account are matching across holders and are in the same pattern of holding.
   c. The ISIN is either in "Active" or "Suspended" status.
   d. Standing Instruction (SI) indicator to receive credits is enabled in the target depository account. (If Standing Instruction (SI) indicator to receive credits is disabled in the target depository account, the instruction status will be updated as "Counter Party Instruction awaited" and such instruction will be cancelled at EOD.)

2. Upon successful validation, the status of the Account Closure instructions will be updated as "Accepted". In case PAN validation fails, then the transfer of such securities (i.e. securities wherein maturity date has expired) will be rejected.

3. Securities (if any) those are lying under below status will continue to remain in the Source Client depository account and the Account Closure instructions in respect of below securities will be updated as "Rejected".

   i. Pending Demat
   ii. Pending Remat
   iii. Pledge balance / unconfirmed pledge
   iv. Blocked Inter Depository Transfer

v. Quantity level freeze

4. In case the source depository account is not closed due to non-transfer of securities as per any of the above reasons, DPs are requested to ensure to freeze the account i.e. “Suspended for Debit and Credit”.

4.6 Freezing of Accounts

Account freezing means suspending any further transaction from a depository account till the account is unfrozen. ISIN[20]/specific number of securities in a demat account may be frozen in certain cases.

1. If a written instruction is received from the client by the DP, requesting freezing of account;
2. If an electronic request is made by a client to his DP or to the Depository, in the form and manner as may be prescribed by the Depository. However, this is not necessarily followed by both the depositories.
3. If orders are received by the DP or the depository from the Central or State Government, SEBI, or any order by the court, tribunal, or any statutory authority.
4. If a request is received by the Depository from a DP or client, in case of NSDL.
5. If orders are passed by Disciplinary Action Committee (DAC) or if DP becomes insolvent, bankrupt or if a DP is being wound up, Depository can freeze accounts and /or ISIN and/or specific number of securities held in DP's name.

By freezing an account for debits only (preventing transfer of securities in / out of the account), the client can receive securities in his account. An account can also be frozen for debits as well as credits (preventing any movement of balances out of the account). No transaction can take place in such an account until it is reactivated. A frozen account may be unfrozen or reactivated, by taking the reverse step. This would be done on:

- The valid written request of the account holder where he had requested freezing,
- Directions of depository made in pursuance of the order of the appropriate authority.

The DP should immediately inform the client about change in status of the account from 'active' to 'suspended' and vice versa.

4.7 Changes in Client Details

A client may change any of the following particulars in the depository system provided the depository has provision for change in client details. All the changes have to be indicated in writing to the DP.

- Change of name in case of individual BO on submission of prescribed documents like marriage certificate, publication of name change in official gazette etc.

[20] International Securities Identification Number (ISIN) is a unique identification number for each security issued in accordance with the ISIN standard (ISO 6166).

- Father's/Husband's Name (change from father's name to husband's name may be necessary on account of marriage).
- Standing instruction facility (an investor can activate/deactivate it).
- Address (both local as well as correspondence), telephone number, mobile number (clients may make this change at any time depending on their need). Clients have to provide proof of new address while submitting application for change of address.
- Occupation details.
- Nominee details (the DP has to obtain the required form from the client duly filled and effect the changes).
- Bank details (clients may revise the bank details given by him before record date to ensure that the dividend/interest warrants bear the correct bank details).
- PAN Number details.
- In case of NRIs, the Reserve Bank of India reference number and approval date for NSDL.
- E-mail addresses.
- Change in signature

Change of Address

1. While processing requests for change of address received from Clients, Participants should obtain the following documents:
    a) a written application for change of address from the Client (In case of joint holdings, all holders must sign the application and in case of non-individual, authorised signatory(ies) must sign);
    b) Proof of new address alongwith the original document of the new address for verification.
2. The Participant should verify the signature of the Client on the application with the signature of the Client available with the Participant. Further, the document pertaining to new address should be verified and attested and thereafter record the change of address in the System.
3. In case of change (addition/ deletion/ modification) in the landmark details for the address which is already captured in the System, Participants may limit the changes to the landmark details, after obtaining a request from the Clients on a plain paper, which is signed by all the holder(s) (in case of joint holdings). Participants are advised to note that the address of the Client captured in the System, as mentioned in the proof of address, should not change and only limit the change in the landmark details.
4. After effecting the change of address in the System, the Participant should send a communication to the Client, confirming the change of address, to the old and the new addresses.
5. The Participant shall upload the updated information of the Client on the system of KRA/CKYC (CENTRAL KYC RECORDS REGISTRY).

Change of name in Corporate Accounts

The facility for change of name in corporate accounts is available for Client type's viz., Body Corporate, Bank, Financial Institution (FI), Foreign Investors, Mutual Fund (MF) and Trust. The documents required at the time of change of name of Corporate are given below:

(i) In case the entity is registered under the Companies Act, 1956, the following documents should be obtained from the Client:

- Letter requesting for change of name signed by the authorised signatories.
- Certified true copy of fresh certificate of incorporation consequent upon change of name issued by the Registrar of Companies.
- Certified true copy of Board Resolution where the change in name was approved
- List of authorised signatories along with the specimen signature duly verified by MD/Co. Secretary.

(ii) In case of other corporate entities, the following documents should be obtained from the Client:

- Letter requesting for change of name signed by the authorised signatories.
- Certified true copy of Board Resolution for change of name.
- Certificate of registration issued by SEBI / relevant Statutory Authorities, as applicable.

While carrying out the modifications, the name of any existing account holder of an account can neither be deleted nor can any new name can be added. DPs can only make changes to the name(s) of existing account holder(s) of the account on submission of following documents as specified by SEBI.

i. In case of change in name on account of marriage following documents shall be submitted:

a. 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

a. Publication of name change in official gazette.

iii. In case of change in father's name

a. Publication of name change in official gazette.

Change of name of Beneficial Account Holder

For effecting change in name in the depository account of an individual BO, a request letter duly signed by the holder whose name is changing alongwith self-attested copies of the following document(s) are required:

Sr. No.	Reason for name change	Documents required
1	On account of marriage/ on account of Divorce	(i) Marriage Certificate/Divorce Certificate or

		(ii) Copy of Passport showing husband's name / Fathers Name or (iii) Publication of name change in official gazette.
2	On account of reasons other than marriage	(i) Publication of name change in official gazette.
3	Change in father's name	(i) Publication of name change in official gazette.

After the name change is carried out, the DP is required to send a communication via letter / e-mail/ Client Master Report / Client Modification Letter generated from the DP System or its back office or any other mode which the DP may deem fit to the Clients informing about changes carried out in their name.

Some of the investors who reside in the State of Karnataka and Punjab, the name change is published by the State Government in the Official Gazette only for Government employees and not for private persons in case of change in name of an individual. In view of the same, SEBI vide Circular No. CIR/MRD/DP/158/2018 dated December 27, 2018 had issued guidelines to facilitate name change for reasons other than marriage for individuals in the State of Karnataka and Punjab.

The below procedure is followed by DPs in case of change of name of an individual in the State of Karnataka and Punjab for reasons other than marriage:

1. Documents to be collected:
   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.

2. DPs shall collect the self-attested copies of above documents and maintain the same in their records after verifying with the original documents and must write the remarks "verified with the originals" on the copies of the document(s).

3. While capturing the name change in the demat account in the system, DPs may select the reason for change in name as "Other than marriage".

Procedure for minor correction of name of an individual in a demat account

An ink-signed written request shall be submitted by the client (In case of joint account, request must be signed by the Client in whose name, minor correction is required) to the DP along with one of the following documents as proof of identity, which carries the correct name.

- PAN card
- AADHAAR card

- Passport
- Driving Licence
- Voter's identity card issued by the Election Commission of India
- Job card issued by NREGA

Minor correction in name (which looks obvious, easily explainable and raises no doubt) would include the following types of cases:

- Correction of spelling mistakes, if any.
- Expansion of the name by incorporating the fully expanded name and/or inclusion of the middle name.
- Abbreviation of name.

A confirmation is obtained from the client that it is not a change in name of the individual for any reason including due to marriage, divorce, court order, etc. In case, an individual changes the spelling of its name for any reason including for numerology, etc., it will be considered as a change in name, and not a correction in name.

Some examples of where correction of name may be facilitated and may not be facilitated are as mentioned below:

*Where minor correction of name **may be** facilitated:*

Sr. No.	Name in demat account	Name to be updated in demat account
1	R. S. Shah	Ramesh Sunder Shah
2	Ram Sevak Sharma	R. S. Sharma
3	Paresh Patil	Paresh Dashrath Patil
4	Sridhr Srinivasarao	Sridhar Srinivasarao

Where correction of name may not be facilitated:

Sr. No.	Name in demat account	Name to be updated in demat account
1	Paresh Patil	Paresh Patel
2	Sunita Mukesh Gaikwad	Sunita More
3	P. S. Shah	S. P. Shah
4	Shekhar Rajan M	Rajan Shekhar P
5	Ram Kumar Sheth	Ram Kumar

DP must exercise due diligence while processing such requests and satisfy itself that the desired name indeed belongs to same person and there is no change in name. Concurrent auditor must conduct 100 percent audit of all cases involving minor correction in name as mentioned above.

CDSL allows change in name due to typographical errors at DP end subject to maintenance of prescribed documents.

Modification in name of the account holder in the system – error by Participant

In case a Participant commits a typographical error while entering name of the Client in the system (which is noticed after activation of the account) or while processing the request for change in the name, it may be corrected by the Participant as prescribed below:

a) Participant should examine the Account Opening Form, KYC Form, request for change of name and other documents submitted by the Clients/ authorized signatory (ies) and ascertain that a data entry error was indeed made while entering name of the Client in the system.
b) Once Participant has satisfied itself about the data entry error, it may modify the name of the Client suitably in the system. The reason should be mentioned as 'Participant error' while making this rectification in the system.
c) Correction in such cases may be undertaken when error is brought to the notice of Participant by client or by auditor of Participant or is detected by Participant staff. After making required correction, intimation should be sent to the client along-with updated Client Master Report.

Change of Signature

1. The Client should make a request in writing specifying reasons for change in signature.
2. New signature should be duly attested by Client's banker, only in case where the beneficiary owner cannot come personally.
3. Client should visit DP's office personally and produce valid proof of identity. Clients opening account with NSDL/CDSL DPs, needs to bring the latest transaction statement of its account.
4. In the presence of officials of DP, Client should affix his/her new signature.
5. If the client cannot come in person, the request in writing should contain the old and the new signature and the same should be attested by the BO's banker.

An authorised official of the DP shall, under his signature, verify the identity proof with the proof and photograph that were furnished at the time of opening of account and thereafter, if found satisfactory, make necessary changes in its records.

4.8 Implementation of the framework for Accreditation of Investors

1. The framework for the process of accreditation of investors is detailed below:

Eligibility Criteria for Accredited Investors:

The following entities shall be eligible to be considered as Accredited Investors (AIs):

(i) Individuals, HUFs, Family Trusts and Sole Proprietorships, which meet the criteria as under:

a. Annual Income >= INR 2 Crore; OR

b. Net Worth >= INR 7.5 Crore, out of which at least INR 3.75 Crore is in the form of financial assets; OR

c. Annual Income >= INR 1 Crore+ Net Worth >= INR 5 Crore, out of which at least INR 2.5 Crore is in the form of financial assets;

(ii) Partnership Firms set up under the Indian Partnership Act, 1932 in which each partner independently meets the criteria for accreditation

(iii) Trusts (other than family trusts) with net worth greater than or equal to INR 50 Crore.

(iv) Body Corporates with net worth greater than or equal to INR 50 Crore.

Networth and Eligibility Criteria

- In case of accreditation of individual investors, HUFs and Sole Proprietorships, the value of the primary residence of the individual, Karta of HUF and the Sole Proprietor respectively, shall not be considered for calculation of net worth.

- In case of investments held jointly by more than one individual, the following conditions shall apply for eligibility as AI: (i) Where the joint holders are parent(s) & child(ren), at least one person should independently fulfill the eligibility criteria for AI; (ii) Where the joint holders are spouses, their combined income/ net worth should meet the eligibility criteria for AI.

- For the purpose of reckoning eligibility criteria, net worth of Body Corporates shall be calculated as under:

  Net worth = (Capital + free reserves) – (Accumulated losses + deferred expenditure not written off)

- For the purpose of reckoning eligibility criteria, net worth of Trusts shall be calculated as under:
  Net worth = (Book value of all assets, other than intangible assets) – (Book value of total liabilities)

- For Body Corporates and Trusts, eligibility criteria for accreditation shall be considered on the basis of the following:
  (a) Financial information as per statutory audit; or

(b) Financial information as per audit by the statutory auditor as on a date during the financial year in which application is made (if furnished).

- The eligibility of foreign investors to be accredited shall be determined on the basis of the rupee equivalent of their income and/ or net worth as applicable.

Validity of Accreditation

Upon meeting the eligibility criteria for accreditation for preceding one year, the accreditation shall be valid for a period of one year from the date of such accreditation. If the applicant consistently meets the said eligibility criteria for accreditation in each of the preceding three years, the accreditation shall be valid for a period of two years from the date of such accreditation.

4.9 Mapping of Unique Client Code (UCC) with demat account of the clients [21]

As a part of its investor protection measure, in 2018, SEBI had directed the Market Infrastructure Institutions (MIIs)[22] to put in place an "Early Warning Mechanism" to detect the diversion of client's securities by the stock broker at an early stage to take appropriate preventive measures. The MIIs were required to devise a mechanism to detect diversion of clients' securities and to share information among themselves in respect of (a) Diversion of pay-out of securities to non-client/other client accounts.; and (b) 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 Depositories would be informed to the concerned Stock Exchange / Clearing Corporation.

In order to detect malpractice and ease of reconciliation, it has been decided and advised to the Depository Participants to Map the Unique Client Code (UCC) with demat account of the clients. To map the UCC with the demat account of the clients, following mechanism has been implemented by the Depositories and the DPs:

- UCC allotted by the trading member (TM) to the client shall be mapped with the demat account of the client.
- A client may trade through multiple TMs in which case each such UCC shall be mapped with one or more demat account(s).

[21] SEBI circular no. SEBI/HO/MIRSD/DOP/CIR/P/2019/136 dated November 15, 2019. The provisions of the circular were to be implemented by December 31, 2019.

[22] Stock exchanges, Clearing Corporations and Depositories are known as Market Infrastructure Institutions (MIIs)

- Stock Exchanges shall share the UCC data with the Depositories which shall include the PAN, segment, TM/CM code and UCC allotted. Such UCC data shared with the Depositories on a one-time basis i.e. from November 30, 2019, and subsequently incremental data in respect of new UCCs created, shall be shared on a daily basis. Depositories shall map the UCC data in the demat account based on the PAN provided in the UCC database.
- Clients may make a request to their DP to de-link or add UCC details which shall be processed by the Depository through DPs. Before any addition of UCC in the demat account, the Depositories shall validate the same with the Stock Exchanges / client.
- Stock Exchanges and Depositories shall have a mechanism in place to address clients' complaints with regard to UCC mapping with their demat accounts.
- Stock Exchanges and Depositories shall have a mechanism in place to ensure that inactive, non-operational UCCs are not mis-used and also a mechanism to ensure that inactive, non-operational UCCs are weeded out in the process of mapping clients' UCC with their demat account.

Review Questions

Questions to assess your learning:

1. The Rights and Obligation Document is a standard document approved by

(a) SEBI
(b) RBI
(c) DCA
(d) Depositories

2. Only a guardian can open a depository account for a minor.

(a) True
(b) False

3. In the event of the death of a joint holder, the balance lying in the account can be transmitted, on request of the surviving holders, to a new account to be opened by the surviving holders

(a) True
(b) False

4. The beneficial owners name in the account can even be changed after the account has been opened. State whether True or False?

(a) True
(b) False

Chapter 5: Functions of Depository Participant-Account Operations

Learning Objectives:

After studying this chapter, you should know about:

- The Basic Services Demat Account
- Internet Based Depository Services offered by the Depositories

5.1 Introduction to Basic Services Demat Account (BSDA)

With a view to achieve wider financial inclusion, encourage holding of demat accounts and to reduce the cost of maintaining securities in demat accounts for retail individual investors, depository participants (DPs) are required to make available a "Basic Services Demat Account" (BSDA) with limited services as per terms specified herein. 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.[23]

5.1.1 Eligibility Conditions for Opening BSDA[24]

Individuals shall be eligible to opt for BSDA subject to the following conditions:

a. Demat accounts shall be under individual category and shall have only one demat account where the person should be the sole or first holder;
b. The individuals shall have only one BSDA in their name across all depositories;
c. Value of securities held in demat account shall not exceed Rs. 10 lakhs for debt and other than debt securities combined at any point of time;
d. Demat accounts shall be registered for SMART facility;
e. One demat account of first holder across depository where verified PAN of the first holder is available. This criteria has not been applied in case of PAN exempt entities.

Option to open BSDA: The DP shall give option:

a. To open BSDA to all eligible individuals who open a demat account after the date of applicability of SEBI circular CIR/MRD/DP/22/2012 dated August 27, 2012;

[23] SEBI Circular Ref No. CIR/MRD/DP/ 20 /2015 Dated December 11, 2015.
[24] SEBI Circular Ref. No. SEBI/HO/MIRSD-PoD1/P/CIR/2024/91 Dated June 28, 2024 which shall come into effect from September 1, 2024.

b. To all the eligible individuals to avail the benefits of BSDA, and 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.

5.1.2 Annual Maintenance Charges:

a. The charge structure may be on a slab basis as indicated below:

Slabs	**Charges**
Value of Holdings in the Demat Account (debt as well as other than debt securities combined)	
Upto Rs. 4,00,000	No AMC
4,00,001 to 10,00,000	Maximum Rs. 100
More than 10,00,000	Not a BSDA. Regular AMC may be levied.

b. 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. For the purpose of valuation of holdings in an account, it is clarified that the value of suspended securities may not be considered for the purpose of determining eligibility of demat account as BSDA.
c. 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.
d. The DPs shall reassess the eligibility of the BOs at the end of every billing cycle and give option to the BOs who are eligible to opt for BSDA.

5.1.3 Services offered to Basic Services Demat Account Holders:

a. *<u>Transaction statements:</u>*
   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.

b. *<u>Holding Statement:</u>*
   a. One annual physical statement of holding shall be sent 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 a state for one year. The DP shall inform the BO that the despatch of physical statement may be discontinued if the account balance remains 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.

c. *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.

d. *SMS Alert facility:*
All BOs opting for the facility of BSDA, shall register their mobile number for availing the SMS alert facility for debit transactions.

e. *Delivery Instruction slip:*
At least Two Delivery Instruction Slips (DIS) shall be issued at the time of account opening.

f. All other conditions as applicable to regular demat accounts, other than the ones mentioned above shall continue to apply to basic services demat account.

5.2 Operations of a Joint Account

A depository account may be opened and maintained in the names of more than one person. All the joint-holders have to sign the application form and acknowledge receipt of copy of the Rights and Obligations document. The supporting documents and photograph should also be provided for all joint holders. The account opening module presently provides only for (up to) three joint names.[25] Though the beneficial ownership of jointly held securities vests in all joint holders,

[25]Separate set of rule has been prescribed for handling of cases of four or more joint holders:
(a) A separate account could be opened in the name of the joint holders with four or more names.
(b) No standing instructions to receive credits, receipt instructions, new issue applications and any other instruction which has the effect of crediting this account should be accepted in respect of such account.
(c) Appropriate annexure should be attached to the account opening form to include various details, viz., name, address, signatures, etc. of more than three holders.
(d) An undertaking should be obtained from the client that he will not use this account for the purpose of allotments in the primary market or for purchases from the secondary market. Hence the client will give no instructions (other than for dematerialisation, bonus, rights and preferential offer) to any person which has the effect of crediting this account.
(e) While opening the account, the DP should capture the names of the four or more joint holders by numbering them in his system and entering the first holder's name in the first holder's field. The rest of the names have to be accommodated in the fields for second and third holder.
(f) The DP should process the dematerialisation request as per the usual procedure while ensuring that the pattern of holding for each certificate tallies with the pattern of holding of the account.

communications about the joint depository account are provided only to the first holder. The dividend and interest warrants, annual reports and notices for meetings are also issued to the first-named joint holder only.

In the event of the death of a joint holder, the balance lying in the account can be transmitted, on request of the surviving holders, to a new account to be opened by the surviving holders. The earlier account having the deceased holder's name is closed after such transmission. The chapter on Transmission gives the detailed procedure to give effect to this type of request.

In addition to the existing option of opening new account, the surviving account holders continue the existing account by deleting the name of deceased account holder(s) from the account, the surviving account holders shall make an application to the DP in the form specified for deletion of deceased account holder(s) alongwith a copy of death certificate duly attested by a Notary Public or by a Gazetted Officer. The DP shall verify the documents submitted and the signature of surviving Client(s). The DP after being fully satisfied on all aspects, shall then effect the deletion of name.

5.2.1 Opening of depository account in joint names with an individual and a body corporate

Section 187 of the Companies Act, 2013 requires companies to hold all investments made or held by it in any property, security or other asset in its own name. However, the proviso to sub-section (1) grants exemption to holding companies in case of holding shares of its subsidiary companies. The exemption allows holding companies to appoint nominees for itself to hold shares in the subsidiary/wholly-owned subsidiary companies in order to meet the statutory minimum limit of members in a company. Share certificates in such cases are usually issued in the name of registered holder (nominee), but the name of the holding company is also mentioned along with the name of the nominee.

DPs can facilitate opening of depository account of the nominee shareholders as follows:

1. An individual and body corporate can open a depository account in joint names. In case the first holder is an individual, the account needs to be opened in individual category whereas, if the first holder is a body corporate then the account type will be “Body Corporate”. The KYC documents alongwith PAN of both these entities will have to be obtained by the DP. Further,

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(g) After all shares have been dematerialised, the BO shall open a anew demat account in the name of three holders (max) and transfer all securities from the previous account to the new account. After all the balances in such a joint account become nil, the account should be closed.

(h) For holdings of a Trust in the joint names of four or more trustees, this procedure for opening the account can be adopted without any restrictions on receiving credits into that account.

Board Resolution to open a joint depository account along with the list of persons authorised to open and operate the accounts is required for the corporate entity. DPs are requested to ensure compliance with the procedure mentioned in various circulars issued by NSDL/CDSL with regards to account opening and KYC norms of both individual and corporates, for the respective holders.

2. It may be mentioned that since a body corporate would be a joint holder, nomination facility cannot be availed in these cases.

Further, DPs may facilitate capturing the bank account of the joint holder in the demat account for such nominee holdings after obtaining an undertaking from the client in the enclosed format.

5.3 Internet Based Depository Operations of NSDL

5.3.1 Internet –Based Demat Account Statement (IDeAS)

IDeAS is the facility for viewing balances and transactions in the demat account updated on an online basis with a delay of maximum 30 minutes. This facility is available to the users of SPEED-e, clearing members who have subscribed to IDeAS and to those clients whose DPs are registered for IDeAS. A demat account holder or a clearing member will have the option to access IDeAS either as a Password or a Smart Card / e-Token User.

NSDL has launched a facility called IDeAS from January 1, 2004 for investors to view balances and transactions in demat accounts updated on an online but not real time basis. This facility is available to all the clients including Clearing Members (CMs) who have opened an account with any of the Participants under NSDL system.

IDeAS enables Clients (Beneficial owners) to view the latest balances and transactions that have taken place in the last five days, in their depository accounts. Clients now are able to view the transactions for a period of past 30 days. Clients can select the period upto 30 days from the current date, to view the transactions.
IDeAs facility has been further enhanced to display the values:

- In respect of mutual fund units *(security type code '20') (held by the Clients in their demat accounts)* based on the NAVs *(i.e., Net Asset Value)* including the date of NAV and in E-series ICINs (*Commodity Identifier*) of National Spot Exchange Limited for the previous business date, held by Clients in their demat accounts.

- Further, Price/face value and indicative value will be displayed in respect of non-convertible debentures, bonds, ETFs, unlisted equity shares etc, held by Clients in their demat accounts.

- IDeAS facility has been further enhanced to display the price as of the previous date and value in respect of ISINs pertaining Sovereign Gold Bonds held by Clients in their demat accounts.

In addition to the above, Clearing Members (CMs) can view and download latest balances and transactions executed in their CM Pool accounts in respect of settlements for the current pay-in date, previous four and next four pay-in dates, through IDeAS facility.

5.3.2 SPEED-e

NSDL launched SPEED-e (pronounced as speedy) in September, 2001. Any DP of NSDL can subscribe to SPEED-e, the common infrastructure of NSDL. SPEED-e enables demat account holders (including Clearing Members) to submit delivery instructions directly on the Internet through SPEED-e website https://eservices.nsdl.com. SPEED-e is available only to those DPs who have subscribed to it and the Users sign an agreement with the DP.

A demat account holder will have the option of accessing SPEED-e either as a Password User or as a Smart Card / e-Token User. A Clearing Member must be a Smart Card / e-Token User to be able to access SPEED-e. Password Users can debit their demat accounts only in favour of specified Pre-Notified Clearing Member accounts (upto six), while Smart Card / e-Token User can submit instructions in favour of any number of accounts.

Further, as a smart card user, clients can also freeze or unfreeze their accounts by giving instructions through SPEED-e.

Some features have been added to enhance the facility of SPEED-e:

Facility for Participants to mark holiday(s) on SPEED-e: A facility of Holiday Master feature on ***SPEED-e*** facilitate Participants (subscribed for ***SPEED-e*** facility) to mark holiday(s) on ***SPEED-e***. After the Participant has marked holiday(s) on ***SPEED-e***, Clients / Clearing Members (CMs) of the Participant shall not be allowed to submit/ authorize instructions on ***SPEED-e*** with execution date as the holiday date.

Facility to submit Inter -Depository Delivery Instructions on SPEED-e: ***SPEED-e*** facility has a feature of enabling investors/clearing members (CMs) to submit Inter Depository Delivery (IDD) instructions.

Facility to reset password, view & change email ID: Password Users of SPEED-e facility shall be given the ability to reset passwords themselves by keying-in few parameters on SPEED-e website.

Launch of redemption of mutual fund units through SPEED-e facility

SPEED-e facility for Beneficial Owner (i.e. password users and e-token users) also include the feature of enabling clients to redeem 'Mutual Fund Redemption Units' through ***SPEED-e*** facility. This facility enable both type of users viz., password and e-Token users to give request to redeem the mutual fund units.

Further, the facility for on-boarding clients on SPEED-e has been simplified; wherein the agreement between Participant and client is no longer required.

5.3.3 Submission of Power of Attorney based Instructions for Clients Electronically (SPICE)

Clearing Members (Clients who have given Power of Attorney (POA) in favour of the Clearing Member) can submit auto pay-in instructions to DPs (where Clients maintain demat accounts) on SPEED-e facility to debit the demat accounts of the Clients and credit their Clearing Member (CM) Pool Accounts. Thus, eliminating the need to give paper based delivery instructions to the DPs.

5.3.4 NSDL/CDSL Mobile App

NSDL has developed a Mobile App for esteemed investors, where an investor can download and use the Mobile App to view balances in the demat account on the mobile anytime, anywhere. NSDL Mobile App is available on Google Playstore and Apple App Store and it is absolutely free for all demat account holders.

5.3.5 Submission of Instruction through Mobile Phone Login Easily (SIMPLE)

SIMPLE, a facility that enables the password based users of SPEED-e facility to submit Client to Clearing Member Pool Account transfer instructions, on SPEED-e website through their mobile phones (enabled with GPRS).

5.3.6 SMS Alert Facility for NSDL/CDSL demat account holders

NSDL/CDSL provides SMS alert facility for demat account holders whereby they can receive SMS alerts directly from NSDL/CDSL for following:
1) All Debit Transfers
2) Credits for IPO, sub-division and bonus
3) Failed instructions

4) Overdue instructions
5) Change of mobile number
6) Change of address
7) Debit of Mutual Fund units
8) Invocation of pledged securities
9) Registration and De-registration of Power of Attorney
10) Modification / Cancellation of nominee name
11) Initiation/Confirmation of pledge instructions
12) Mutual fund redemption request submission by client and acceptance/rejection of the same by RTA.
13) Blocking/Debit of shares in demat account in respect of Tender Offer instruction (option available only with NDSL).

Charges

NSDL/CDSL does not levy any charges on the DPs for providing this facility to investors.

Registration

(i) This facility is available to the investors provided the investors have given their mobile numbers to their DPs and the DPs have captured the numbers in the NSDL/CDSL System and have also enabled (ticked) the SMS flag in NSDL and/or CDSL system.

(ii) Those investors who have provided their mobile numbers to their DPs but do not wish to avail this facility shall inform their DPs to disable the SMS flag. However, such accounts should not be operated by Power of Attorney (PoA).

(iii) For change of address and registration & de-registration of Power of Attorney in NSDL System, SMS alerts shall be sent to Client's mobile phone (captured in NSDL System) irrespective of Client availing SMS Alert facility.

5.4 Internet Based Depository Operations of CDSL

CDSL offers its demat account holders with two internet based facility Electronic Access to Securities Information [easi] whereby beneficial owner can view their demat account holding, download the transaction statements and Electronic Access to Securities Information and Execution of Secured Transaction [easiest] which permits BOs/CMs to submit debit/credit

transaction instructions to effect off-market, on-market, inter-depository and early pay-in of transactions, freeze/unfreeze and pledge, unpledged and confiscation.

Through the easiest facility, the BO can freeze their demat account at BO level, ISIN level as well as can initiate partial level freeze.

Further, the BO can pledge the securities as a pledgor, and Pledgee BO can accept the pledge as a pledgee if both the BOs are registered for CDSLs easiest facility. Further, the pledgee can execute the confiscation if the pledgor fails to fulfill the obligation. BO also has the facility to initiate the pledge for the purpose of Margin from their easiest login.

CM has the facility to accept the Margin pledge from its easiest login as a pledgee and the CM has the facility to re-pledge the securities to the CC as a pledgor.

A sole holder beneficial owner is not required to submit any registration forms to DP for authentication nor the trusted account declaration in case of easiest trusted account user.

In case of a beneficial owner holding a joint demat account, the beneficial owner is required to submit the duly signed registration form to the DP for authentication to his/her DP.

SMS Alert Facility is also provided for CDSL demat account holders who are registered for SMART, wherein various types of alerts are being sent to registered mobile number of demat account holder on the same day of transaction.

The sole holder BO can update the nomination details or opt out of nomination details in their demat account through CDSL's easi/easiest facility as well as from the website of CDSL.

Review Questions

1. How many Delivery Instruction Slips (DIS) are issued to the BO's at the time of opening the BSDA?
   (a) 1
   (b) 2
   (c) 3
   (d) 4

2. All BOs opting for the facility of BSDA, shall register their mobile number for availing the SMS alert facility for debit transactions. State whether True or False?
   (a) True
   (b) False

3. NSDL/CDSL does not levy any charges on the DPs for providing this facility to investors. State True or False?
   (a) True
   (b) False

4. All the joint-holders while opening a BO account, have to sign the application form and acknowledge receipt of copy of the Rights and Obligations document. State True or False?

   (a) True
   (b) False

Chapter 6: Functions of Depository Participant-Transmission and Nomination

Learning Objectives:

After studying this chapter, you should know about:

- The concept of transmission of securities
- The concept of nomination for securities
- Procedure for transmission of securities

6.1 Transmission of Securities

The word `transmission' means devolution (transfer) of title to securities, for example, in case of death of individual, lunacy, bankruptcy, winding-up (in case of corporate entity) etc. The person on whom the securities devolve has to prove his entitlement to claim the securities by submitting appropriate documents and seek transmission. If the securities are held in the depository system (electronic form), the documents have to be submitted to the DP.

If the securities are held in physical form, the documents have to be sent to the company for effecting transmission. If the deceased shareholder had holdings in several companies, to effect transmission of securities, the relevant documents must be sent to each of the companies, alongwith the securities. Legal heirs have to follow-up with each of the companies in order to get the transmission effected before the book closure, if they wish to avail of the benefits accruing through such securities. In the depository system, such problems are mitigated as the securities are held as account balances in the electronic form.

The process of transmission through a depository is simplified and investor friendly and the legal heir to the title interacts only with one entity i.e., his DP. At NSDL, processing of Transmission request should be processed through 'Transfer of Holding' module only where the target account is in NSDL

The securities which are encumbered (i.e. Pledged, earmarked, etc.) will not be transferred out of the account and will remain in the deceased BO account till such time as the encumbrance is released or the obligation (in case of earmarking) is met. Similarly, securities of ISINs that are 'Inactive' on account of pending corporate actions like 'Merger, Demerger, Scheme of Arrangement, Split, Consolidation etc. or ISINs which are 'Frozen for debits and / or credits' due to regulatory restraints like pending listing of the company with the Exchanges pursuant to an Initial Public Offer (IPO) or Scheme of arrangement etc, will not be transferred out of the account.

In such cases, the account will reflect a “TO-BE-CLOSED” status. However, at a later date, when the ISINs which are ‘Frozen for debits and / or credits’ are activated or the corporate actions pertaining to the ‘Inactive’ ISINs are processed and the securities are transferred to a new / resulting ISIN in the BO’s account, the DP may process the transfer of the said securities to the account of the claimant /survivor/ nominee / legal heir as the case may be on the basis of the Transmission Request Form duly filled, signed and submitted. The same procedure applies for account closure also.

CDSL also has the facility of ‘Account transfer’ and “Transmission-one to one” module, whereby all securities including those which are under ‘Inactive or Lock-in status’ and balances which are under Pending Demat / Remat / Destat / Restat will also be transferred to target demat account along with the free securities, provided the target CDSL demat account. On transfer of balances under pending Demat/ Remat / Destat / Restat in source demat account, the source Demat Request No [DRN] / Remat Request Nos [RRN] will be cancelled and remarks column of the respective DRN/RRN will be updated with corresponding new DRNs/ RRNs. New Demat/ Remat / Destat / Restat will be generated in the target BO account and remarks column will carry details of the old DRNs/RRNs.

6.2 Nomination for Securities

The Companies Act 2013 provides for nomination in respect of shares, debentures, etc. Under the provisions, a shareholder, a debenture-holder, a bondholder can nominate one person(s), in whom the shares or debentures or bond or deposits would vest, in the event of original investor's death. The facility can be availed of by any person whether resident Indian or a non-resident Indian investor. [Note: Companies Act 2013 and rules thereunder provides the account holder to nominate only one person as a nominee].

Investors holding securities in dematerialised form have the option of nominating 10 persons in the account, who would be entitled to receive securities outstanding in his/her name in the event of their death. Nomination facility can be availed at the time of opening the depository account itself or subsequently during the lifetime of the Account holder. There is a separate prescribed form for nomination under depository segment. Nomination can also be changed at will by resubmitting the nomination details in the prescribed form. The DP has to caputure and update the nominee details submitted by the account holder in the depository system. In the event of death of the account holder, the securities lying to the credit of the account holder in the demat account may be transmitted to the nominee's account after the DP verifies the identity of the nominee. Nomination shall be mandatory for single holding only. The requirement of nomination shall be optional for jointly held accounts. In a demat account which is held jointly, all the holders should sign the nomination form. Non-individuals including society, trust, body corporate, Hindu

Undivided Family (HUF), holder of power of attorney cannot nominate. A minor can nominate through a guardian. A minor can also be appointed as a nominee represented by a guardian. If the account is held jointly all joint holders will be required to sign the nomination form. Power of Attorney (POA) Holder(s) of the investor cannot nominate.

The Client(s) may make a nomination of his/their account in favour of any person(s), upto ten persons by filing the nomination form specifying the percentage for distribution of securities in case of death of the account holder and submitting same with the relevant Participant. In the case of joint accounts, all the joint holder accounts shall be required to affix their signatures. Such nomination shall be conclusive evidence of the Client(s) disposition in respect of all the securities in the account for which nomination has been made. In case, the Client(s) appoints more than one person, maximum upto ten persons, as nominees, the Client must specify the percentage of share for each nominee which must total upto hundred percent. In case the percentage of share is not provided, allocation of securities amongst the nominees shall be considered as equal.

Nominee to act on behalf of incapacitated investors[26]

The investors having single holding / account shall have the option to:

a) empower, any one of the nominees (excluding minor nominee) to operate the investor's account, if the investor is physical incapacitated, but still has the capacity to contract,

b) specify either the percentage or absolute value of assets in the account that can be encashed by such nominee,

c) change such mandate any number of times without any restriction.

Depository Participant to follow the following in case of such request

a) The participant upon receipt of intimation on behalf of such investor shall send a responsible officer to visit the incapacitated investor in-person. The request of the nominee of the incapacitated investor shall be accompanied with medical certificate indicating the reason for inability to affix signature by the investor and its tenure.

b) This officer shall first hand ascertain the investor's capacity to contract (i.e. to exclude investors in ventilator, coma or unconscious). Depending on the nature and degree of incapacitation, this officer shall obtain a thumb or toe impression or 'a mark' , as the case may be, on the written request for transacting in the account / folio of the incapacitated investor, in the presence of an independent witness.

c) Further, the officer shall record his/her name, signature and suitable remarks to the effect that "Thumb impression / toe impression / mark affixed in my presence" on the written request of the client.

[26] SEBI/HO/OIAE/OIAE_IAD-3/P/ON/2025/01650 January 10, 2025

d) Any encashment by such nominee shall be credited only to the bank account linked to the account of the investor.

e) The participant shall not allow any service request, including change in bank account, email address, mobile number etc. by such nominee.

6.3 Transmission of Securities

6.3.1 Transmission of Securities held singly in the Depository with Nomination

The Client(s) may provide nomination for his/their account in favour of any person(s) (Maximum 10 nominees), by filing with the relevant Participant.

A nomination, substitution shall be valid only if:

- it is submitted to the Participant by the rightful Client(s). The nomination form has to be signed by all holders. A POA holder cannot nominate.
- it is in the prescribed format (format is given by the depository to the participant).
- it is duly signed by Client(s).
- it is properly signed and witnessed.
- signature of the Client(s) tally with the specimen signature records.
- the details of the securities entered in the nomination forms match those in the records of the Participant. CDSL Nomination form does not have provision for mentioning securities. Nomination is applicable to entire holding. Recording of the share of securities for each such nominee in terms of percentage which must total to 100 percent. At the time of transmission in favor of such nominees, the DP shall divide all the securities at ISIN level in the same proportion as recorded at the time of nomination.
- the photograph of the Nominee is annexed to the nomination form in case of NSDL.
- the Nominee has signed the nomination form and guardian in case of the nominee being a minor in case of NSDL.

As per CDSL Operating instructions, nominee's photograph, signature, or in case of minor, the guardian's signature is not required.

Upon the death of the sole holder or the death of all the joint holders, as the case may be, the nominee(s) shall request the DP in writing alongwith an original death certificate or a copy of the death certificate duly attested by the nominees or by a Public Notary or by a Gazetted Officer and self-attested copy of the Permanent Account Number (PAN) card of the nominee(s) issued by the Income Tax Department for transmitting the securities covered by the nomination to the account of the Nominee, held with any Depository, as per the Client Master Report, submitted by the nominee, if the nominee has a demat account in individual capacity with another DP. If the Nominee does not have an account with the Depository, the Nominee shall be required to open an account with any Depository.

In case of multiple nominees in the account, the Participant shall distribute the securities to the nominees as per percentage specified by the Account holder at an ISIN level in the proportion of share indicated at the time of nomination. In case the number of securities are not exactly divisible in the specified proportion in respect of particular ISIN, the Participant shall divide the securities at the ISIN level to the extent, the securities are divisible and remaining indivisible securities, if any, shall be transmitted to the nominee whose name is recorded first.

For transmission of assets to the registered nominee(s), the participant shall require only the following (a) Self-attested copy of Death Certificate of the deceased investor; (b) due completion, updating or reaffirming of the KYC of nominee/s; (c) due discharge from the creditors if there are subsisting credit facilities secured by a duly created pledge.

6.3.1.1 Transfer to Legal heir(s) / representatives from nominee(s)

Regulated entities shall facilitate / extend co-operation to transfer assets from the nominee(s) to the legal heir(s) of an investor, as and when approached by either party.

6.3.2 Transmission of Securities held singly in the Depository without nomination

The legal heir(s) or claimants of the deceased account holder have to submit a request, in the prescribed form duly signed by them to the DP for transmitting the balances lying in the BO account of the deceased to their BO account(s). The following documents have to be submitted with the request for transmission in the prescribed format:

1. Original or a copy of the death certificate, duly attested by the legal heir(s) / claimant(s) subject to verification with the original or copy of the death certificate duly attested by a Gazetted officer or Notary Public can also be accepted;
2. Self – attested copy of the Permanent Account Number (PAN) card of the legal heirs / claimant(s) issued by the Income Tax Department.
3. A copy of the Succession Certificate or Probate of Will or Will or Letter of Administration or court decree or Legal Heirship Certificate (or its equivalent), as may be applicable in terms of Indian Succession Act, 1925 has been prescribed as documentary requirement for transmission of securities.;

In cases, where a copy of Will is submitted as may be applicable in terms of Indian Succession Act, 1925, the same shall be accompanied with following documents from the claimant (appropriate beneficiary of the will) to whom the securities are transmitted, and the copy of Will shall be duly attested by a Notary Public or by a Gazetted Officer provided that market value of securities held in each of the account of the deceased as on the date of application for transmission not exceeding ₹ 15,00,000:

a) Letter of Indemnity made on appropriate non judicial stamp paper; and

b) An Affidavit made on appropriate non judicial stamp paper.

Legal Heirship Certificate (or equivalent certificate) shall be accompanied with:

a) a notarized indemnity bond from the legal heir(s) /claimant(s) to whom the securities are transmitted, in the prescribed format
b) No Objection from all non-claimants (remaining legal heirs), stating that they have relinquished their rights to the claim for transmission of securities, duly attested by a notary public or by a gazetted officer, in the prescribed format

5. In case the BO account of the claimant is not with the Participant, copy of Client Master Report of the BO account of the claimant.

In case the legal heir(s)/claimant(s) express their inability to produce either of the documents mentioned above and if the market value of the securities held in each of the accounts of the deceased BO as on the date of application for transmission is not more than Rs. 15 lakh, or such other amount as may be specified by the depository or SEBI from time to time, DP may process the request for transmission of securities on the basis of the following documents:

a. Request for transmission in the prescribed format;
b. Original or copy of the death certificate duly attested by the legal heir(s) / claimant(s) subject to verification with the original or copy of the death certificate duly attested by a Notary Public or by a Gazetted Officer;
c. Self-attested copy of PAN Card of nominee, issued by the Income Tax Department.
d. Any one or more of the following:

    i) Letter of Indemnity made on appropriate non judicial stamp paper;
    ii) An Affidavit made on appropriate non judicial stamp paper; and
    iii) No Objection Certificate(s) from all the legal heir(s) who do not object to such transmission.
    iv) As an alternate a No Objection Certificate from all legal heir(s) /claimant(s) who do not object to such transmission, a copy of Family Settlement Deed duly attested by a Notary Public or by a Gazetted Officer, provided that the Family Settlement Deed clearly vest the securities in favour of the person seeking transmission in his/her name and vesting of securities in his/her name is not contingent upon any other onerous conditions in such Family Settlement Deed.

    Provided further that if the division of securities as per the Family Settlement Deed is amongst more that one person, then Family Settlement Deed can be considered as an agreement amongst the legal heirs for transmission of securities to each legal heir applying for transmission.

v) In case the BO account of the claimant is not with the Participant, copy of Client Master Report of the BO account of the claimant.

6.3.3Transmission of Securities held jointly in the Depository

In case of death of one of the Clients in a joint account, the surviving Client(s) shall request the DP to transmit the balances lying in the Client account to the account of the surviving Client(s). The surviving Client(s) shall make an application to the DP in the specified form given by the Depository, alongwith original or a copy of the death certificate duly notarised / attested by a gazette officer. The surviving joint holder(s) will have to open a new account with the DP in their name(s). If the surviving client(s) wish to open a new account with the same DP, then the DP will open the new account in the name(s) of the surviving member(s), in the same order as in the original account, on the basis of the existing documents already in the possession of the DP, provided that the said documents meet the prevailing requirements for opening an account. In case of securities held jointly:

- The surviving holder(s) to have a separate account with any DP, Client Master Report of such accounts.
- Ensure all surviving holder(s) sign the transmission form.
- Ensure that transmission form is accompanied with an original or copy of notarised / attested death certificate by a Gazetted officer or Notary Public.
- Verify signature of the surviving Client(s).

In addition to the existing option of opening new account, the surviving account holders continue the existing account by deleting the name of deceased account holder(s) from the account, the surviving account holders shall make an application to the DP in the form specified for deletion of deceased account holder(s) alongwith a copy of death certificate duly attested by a Notary Public or by a Gazetted Officer. The DP shall verify the documents submitted and the signature of surviving Client(s). The DP after being fully satisfied on all aspects, shall then effect the deletion of name. Request for deletion of name of the BO should be submitted within 1 year i.e. 365 days, if the request is received after 1 year, DP's are required to carry out the transmission process as per the earlier procedure of opening a new account by the surviving holders.

With regards to transfer to legal heirs from nominees, in case of joint holdings, the participant shall not seek any documentation including related to KYC, indemnities or undertakings from the surviving joint holder, except copy of the Death Certificate of the deceased.

6.3.4 Transmission of Securities held by Karta of Hindu Undivided Family (HUF) in the Depository

As per SEBI Circular no. SEBI/HO/MRD/MRD-POD-2/P/CIR/2022/114 dated August 26, 2022 upon death of the Karta of a Hindu Undivided Family (HUF), the surviving member(s) of the HUF may appoint the eldest surviving member of the HUF as the new Karta of the HUF or a coparcener who is appointed as Karta by an agreement reached amongst all the existing coparceners of the HUF.

For change of name of Karta in the account of HUF to the new Karta in place of the deceased Karta, the surviving members through the new Karta shall make a joint application to the Depository Participant in the format specified along with the following documents[27]:

i) Original death certificate or Copy of the death certificate of the deceased Karta, subject to verification with the original or copy of the death certificate duly attested by surviving coparceners / members duly certified by a notary public or by a Gazetted Officer.
ii) Copy of PAN, Proof of Identity, Proof of Address and a photograph of new Karta of HUF along with his original ink signed specimen signature.
iii) A declaration of the list of surviving members of HUF in the prescribed form (FORM 40), not objecting the appointment of the new Karta along with name, date of birth, gender and relationship with Karta of all members of HUF.

In case partial partition of the HUF, if desired by one or more members, the Karta shall transfer the securities to the said members who seek partition and HUF account shall continue if the remaining coparceners / members desire to continue the HUF. The accounts of such members shall be treated as their individual accounts.

In case HUF goes into partition, the securities shall be divided amongst all the members in the manner specified by the applicant. The surviving members shall furnish to the Participant the details of the beneficial owner accounts of the individual members in order to have the securities distributed to their respective accounts.

The surviving members shall furnish to the Participant the intimation of partial or total partition accompanied by a signed letter mentioning the names of the members and their confirmation of partial or total partition having taken place.

The Participant shall ensure that the documents submitted by the surviving members of the HUF or the new Karta are in order and shall then effect change in name of Karta or transfer of

[27]As per CDSL Operating Instructions, HUF does not come to an end in the event of death of the Karta, only new karta will be appointed.

securities to the account of surviving members in the event the HUF goes into partial or total partition.

If a transfer of securities is effected to the surviving members due to total partition, the Participant shall close the account held in the name of the HUF after distribution of securities to the coparceners / members as the case may be.

It may be noted that in CDSL the previous account need not be closed and the same account can continue. In the event of death of the 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 members of the HUF. The new karta shall submit the new list of members, original or a copy of the death certificate of the deceased Karta duly notarized / attested by Gazetted Officer and a no objection from the surviving members of the HUF for him/her to act as a karta of the HUF. The new karta shall record change in signature to operate the account. DP will make necessary modifications in the name of Karta after verifying all the documents and record change in signature of the new Karta to operate the account.

In CDSL, a total or partial partition shall be recognized only if a claim to that effect is made by one or more coparceners. An intimation of a total or partial partition shall be accompanied by a signed letter mentioning the names of the other members and their confirmation of a partition having taken place. In case of a partial partition, the others can still continue the HUF in the existing name. In case of full partition, 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, the entire HUF is dissolved and the shares shall be divided amongst all the coparceners in the manner specified by the applicant subject to fulfillment of clause. In both the above cases, the karta can transfer shares to the members who seek partition. If the transfer cannot be amicably settled, the family members can go to a court and transfer of shares can then be based on the court direction.

6.3.5 Centralized mechanism for reporting the demise of an investor through KRAs[28]

SEBI with effect from January 1, 2024, has introduced a centralized mechanism for reporting and verification in case of the demise of an investor, thereby smoothening the transmission process. . Listed companies wanting to provide the beneficial access to such a centralized mechanism to their investors holding securities in physical form, are eligible to establish connectivity with KRA through their RTAs

[28] SEBI Circular - SEBI/HO/OIAE/OIAE_IAD-1/P/CIR/2023/0000000163 dated October 03, 2023.

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Obligation of Intermediary – verification of the death certificate

1. The notifier [29] may inform the 'concerned intermediary' of the demise of the investor and shall provide the death certificate along with the PAN. The intermediary may carry out the following steps:
   a. Verify the death certificate within one day of its receipt.
      i. Online viz. the website of the issuing Government authority, or
      ii. Offline: OSV ('Original Seen and Verified') process by intermediary

2. Record and retain self-certified copy of proof of identity, relationship with deceased and contact details of the notifier.

Obligation of intermediary - Updation of records in the KRA system by the Intermediary

3. After verification of the death certificate, the concerned intermediary shall (on the same day of verification):
   a. Submit a 'KYC modification request' to the KRA that "information on death of investor received; death certificate verified" and also upload the relevant documents.
   b. Block all debit transactions in the account / folios of the deceased investor.

It is noted that for joint accounts, the specified mode of operation should be adhered to, and if the account is operated on Either OR Survivor, or Anyone or Survivor, etc. (i.e. modes other than joint mode), the account operation in such mode shall continue.

Intimation on Transmission of assets of the deceased investor

4. Upon receipt of notification from KRA as "Blocked Permanently", the intermediaries shall:

   a. Immediately block all debit transactions in the account / folios of the deceased investor; and
   b. Intimate the notifier/nominee, within 5 days about the procedure for transmission, provide the transmission request form and the list of documents required for the

[29] Notifier may be a joint account holder(s) or nominee(s) or legal representative or family member.

transmission. In case of joint account/s, the intermediary shall intimate the surviving joint account holder(s) as aforesaid.

Transaction request in accounts / folios flagged off as "On Hold"

5. If there is any transaction request received by any intermediary in the account / folio held by it, which is flagged off as "On Hold" (due to unavailability of death certificate) it shall allow the transaction only after conducting additional due diligence as may be appropriate, including through video call with the investor or In-Person Verification (IPV) which serves to establish that the investor is alive.
6. In case where the information about demise of the investor is proven to be incorrect when the intermediary is able to establish contact with the concerned investor, the intermediary shall submit a 'KYC modification request' in the KRA system as, "intimation of death of investor is false" and also upload a report of its additional due diligence to the KRA. This shall be done on the same day in order to avoid any inconvenience to the investor.
7. The KRA shall in turn, revert the status of the KYC to 'Clear or Validated' and issue this update to all linked intermediaries, all on the same day.

Other obligation of Intermediaries

8. All intermediaries who have account or folios of investors whose status has been updated as deceased by the KRA, shall submit the data w.r.t. intimation of transmission and its outcome thereof, to SEBI, in the format as may be prescribed.

Review Questions

Questions to assess your learning:

1. Nomination of shares is a provision under which act?
   (a) Companies Act 2013
   (b) SEBI Act
   (c) Depositories Act 1996
   (d) SCRA 1956

2. Can nomination be made by individuals for Beneficiary accounts held jointly or singly?
   (a) Yes
   (b) No

3. What kind of account is required by a nominee to give effect to the transmission of shares?
   (a) Savings Account
   (b) Demat Account
   (c) Salary Account
   (d) Current Account

4. For transmission of securities to the account of the new Karta from the account of the deceased Karta, the surviving members through the new Karta shall make a joint application to the DP.
   (a) True
   (b) False

Chapter 7: Functions of Depository Participant-Dematerialisation

Learning Objectives:

After studying this chapter you should know about**:**

- The concept of International Securities Identification Number (ISIN) and its importance
- Dematerialisation process
- Rematerialisation process

7.1 Introduction

As already discussed earlier, dematerialisation is the process of holding the securities in a fungible[30] form. They do not bear any distinguishable features like distinctive number, folio number or certificate number. Once the shares are dematerialised, they lose their identification features in terms of share certificate number, distinctive numbers and folio numbers. *Title to the securities owned is in terms of number of securities and not in terms of distinctive numbers, certificate numbers etc*. *Each security is identified in the depository system by an International Securities Identification Number (ISIN) and a short name*.

7.2 International Securities Identification Number (ISIN)

Securities dematerialised bear a distinctive ISIN. This ISIN is a unique identification number for each security issued in any of the International Standards Organisation (ISO) member countries in accordance with the ISIN Standard (ISO 6166). ISO 6166 was developed for use in an international (cross-border) as well as domestic trades.

ISIN is a 12-character long identification code. It has three components (1) a pre-fix, (2) a basic number and (3) a check digit. The pre-fix is a two-letter country code as stated under ISO 3166 (IN for India). The basic number comprises nine alphanumeric characters (letter and/or digits). The check digit at the end of the ISIN is computed according to the modulus 10 "Double-Add-Double". It establishes that the ISIN is valid. Securities issued by the same company, issued at different times or carrying different rights, terms and conditions are considered different securities for the purpose of allocating ISIN and are allotted distinct ISINs. In India, SEBI has delegated the assigning of ISIN of various securities to NSDL. For securities getting admitted on

[30]Fungible means “movable things that are standardised, so that one unit is essentially the same as another which may be estimated and replaced by weight, number and measure".

CDSL, the ISIN is allotted to those securities on receiving request from the CDSL. Allotment of ISIN for G-sec is done by Reserve Bank of India.

To illustrate, ISIN INE 475C 01 012 has the following break up:

IN - India
E – Company Type
Last digit - check digit
First four digits 475C - Company serial number;
01 - equity (it can be mutual fund units, debt or Government securities);
01 - issue number;
2 - check digit.

The third digit (E in the above example) may be E, F, A, B or 9. Each one carries the following meaning:

E - Company
F - Mutual fund unit
A - Central Government Security
B - State Government Security
9 - Equity shares with rights which are different from equity shares bearing INE number.

In an ISIN number, it is important to pay special attention to the third digit.

7.2.1Which securities can be dematerialised?

According to the SEBI (Depositories and Participants) Regulations, 2018, the following securities are eligible for holding in dematerialised form.

1. Shares, scrips, stocks, bonds, debentures, debenture stock or other marketable securities of similar nature of any incorporated company or other body corporate, including underlying shares of ADRs and GDRs.

2. Units of mutual funds, rights under collective investment schemes and venture capital funds, commercial paper, certificate of deposit, securitised debt, money market instruments, government securities and unlisted securities.

Physical form of securities can be converted into book entry form in the depository system only if the company which has issued the securities, has entered into an agreement with the depositories to offer demat facility.

7.2.2 Regulations mandating transfer of securities in dematerialised form with a depository

SEBI (Listing Obligations and Disclosure Requirements) (Fourth Amendment) Regulations, 201831, specifies that the transfer of securities shall not be processed unless the securities are held in the dematerialized form with a depository. However, SEBI issued clarifications on the following:

1. Any investor who is desirous of transferring shares (which are held in physical form) after April 01, 2019 can do so only after the shares are dematerialized.
2. SEBI decision does not prohibit the investor from holding the shares in physical form; investor has the option of holding shares in physical form even after April 01, 2019.
3. The amendment is not applicable for transmission (i.e. transfer of title of shares by way of inheritance / succession) and transposition (i.e. re-arrangement / interchanging of the order of name of shareholders) cases.
4. The transfer deed(s) once lodged prior to deadline and returned due to deficiency in the document may be re-lodged for transfer even after the deadline of April 01, 2019.

However, the aforementioned is not applicable for demat of shares, transmission (i.e. transfer of title of shares by way of inheritance/succession) and transposition (i.e. re-arrangement/interchanging of the order of name of shareholders) cases. The investors can demat their physical shares, transmission and transposition in physical shares even after April 1, 2019.

7.3 Dematerialisation Process

A holder of eligible securities in the depository system may get his physical holdings converted into electronic form by making a request through the DP with whom he holds a beneficiary account.

7.3.1 Prerequisites for Dematerialisation Request

a. The registered holder of the securities should make the request.

[31] Notification dated June 8, 2018 was supposed to be effective from December 5, 2018. However, the date was extended and the notification has been made effective from April 1, 2019.

b. Securities to be dematerialised must be recognised by the depository, as eligible security. In other words, only those securities whose ISIN has been activated by the depository, can be dematerialised in the depository system.
c. The company/Issuer should have established connectivity with the depository. Only after such connectivity is established, the securities of that company/Issuer are recognised to be "available for dematerialisation" in the depository system.
d. The holder of securities should have a beneficiary account in the same name as it appears on the security certificates to be dematerialised.
e. The request should be made in the prescribed dematerialisation request form.

7.3.2 Procedure for Dematerialisation

1. DP provides dematerialisation request forms (DRF) to their clients
2. The client completes the DRF in all respects and submits to the DP along with the security certificates to be dematerialised.
3. The DP checks the DRF for validity, completeness and correctness. The following points should be checked particularly:
    - The security certificates sought to be dematerialised are attached to the DRF.
    - The certificates are not mutilated or defaced in a manner affecting any material information
    - The name of the holder(s) on DRF and the certificates is exactly the same as in the BO's account in the DP system. Minor variation however in name, is permitted such as initials in place of first name, middle name, minor spelling mistake in name etc. The permitted variations refer to initials not being spelt out fully or put prior to after the surname. In such cases, if the signature on the DRF matches the specimen signature available with the DP, the securities can be considered for demat.
    - Details like security type, face value, paid-up value, pari-passu status, certificate numbers, distinctive numbers, number of certificates, total quantity of securities and lock-in status are filled-in correctly.
    - Separate DRFs have to be submitted for:
        - Free and locked-in securities;
        - Each ISIN;
        - Securities locked-in for different reasons;
        - Securities of different paid-up value; and
        - For each client account.
    - DRF is signed by:
        - The sole holder in case of single holding;
        - All joint holders in case of joint holdings;

- Constituted signatories in the case of corporate accounts;
- Power of Attorney Holder
- The signatures of the client as appearing on DRF should match with the signatures in the records of the DP. If the signatures do not match, the DP should satisfy itself about the identity of the client. If necessary, the DP may insist on attestation of DRF from bankers of the client. DRF should be signed by all the holders and match with specimen signatures. If the client has a signature registered with the company which is different from the specimen signature given to the DP, the client may be advised / allowed to affix both the signatures on the DRF. In case the signature of the client recorded with the Issuer varies with the signature of the client as recorded with the DP, the client may submit to the DP a Signature Variation Form as per Form 42 alongwith the DRF. In CDSL, DRF requires the BO to sign 'as per the signature recorded with the DP' and 'as per the signature recorded with the company'. The DP official is required to verify the signature of the BO as per its records with the signature on DRF under 'signature with DP'.

4. If the DRF and the accompanying security certificates are not found in order, the DP should return the DRF and certificates.
5. If DRF and accompanying certificates are found in order, the DP should accept the DRF and issue an acknowledgement to the client.
6. The DP should enter the dematerialisation request in DP system after following maker-checker concept. The DP system generates a request number (DRN), which should be mentioned on DRF.
7. DP should ensure that the certificates are defaced and mutilated before they are sent to the Issuer / RTA. The security certificates are marked (defaced) with the words "Surrendered for Dematerialisation" with DP name and BO ID. DP must ensure that the security certificates submitted for dematerialisation to the issuer or its RTA, bear the DP name, DP ID and Client ID. This is a precautionary measure to prevent misuse of share certificates by anyone. The certificates are mutilated by punching two holes at the top of the certificates by using normal office perforator.
8. The DP should forward the DRF and the relevant security certificates to the Issuer or its R&T Agent for dematerialisation. DRF and enclosures have to be sent at the "address to which physical certificates to be sent" communicated by the Depository. The forwarding letter should refer to the allotted DRN and should be sent within seven days of accepting it from the client. Issuer or its R&T Agents have requested that at the time of receiving the physical requests for dematerialisation of securities, DPs must forward additional details of the client such as address and contact details of the client, status of the account, type and sub-type of the account, PAN of all the holders and the bank account details captured in the demat

account so as to assist the Issuer or its R&T Agents to carry out due diligence while processing the dematerialisation requests. Accordingly, DPs are requested to enclose the following alongwith the DRF:

a. A duly certified Client Master Report (CMR) printed either from the NSDL system or from DPs back-office system; OR
b. A covering letter generated from the NSDL system or from DPs back-office system which incorporates the aforesaid details while forwarding the demat requests.

9. The Issuer or its R&T Agent verifies the DRF and the accompanying certificates for validity, completeness and correctness. They also match the details with the intimation received from the depository against the same DRN.
10. The DP informs the client accordingly and requests removal of reasons for objection. The DP removes these or provides additional information to the Issuer or its R&T Agent within 15 days of receiving the objection memo.
11. If the DP fails to remove the objections within 15 days, the Issuer or its R&T Agent may reject the request and return DRF and accompanying certificates to the DP. The DP informs the client accordingly. The DP also returns the security certificates to the client and obtains an acknowledgement.
12. The DP, if the client so requires, may generate a new dematerialisation request and send the securities again to the Issuer or its R&T Agent.
13. If the Issuer or its R&T Agent finds the DRF to be in order, it informs the depository and authorizes it to create the appropriate credit balance in the client's account. The DP system automatically credits the client's accounts when DM is updated. For the purpose of income tax calculations, the date of credit of securities by dematerialisation is taken as the date of acquisition of shares.
14. The DP, on receiving confirmation of credit entry in DP system informs the client through monthly transaction statement.
15. An R&T Agent is required to confirm/ reject a demat request within 15 days from the date of receipt of physical shares.

Checklist for Investors

While filling up the DRF, investors need to:

1. Obtain the DRF from the DP with whom they have opened an account.
2. Fill- in the DRF in duplicate/triplicate as required by the DP.
3. Fill all the information asked in the DRF since it is mandatory.
4. Fill separate forms;
    - for separate ISIN numbers of the company.
    - for lock-in and free securities.

5. All the holders should sign the DRF form. Signatures should match with those of the specimens on the account opening form. However, if the signature with the company/R&T Agent is different from the signature with the DP, the client may affix both signatures. In case the signature of the client recorded with the Issuer varies with the signature of the client as recorded with the DP, the client may submit to the DP a Signature Variation Form as per Form 42 alongwith the DRF.
6. The order of the holders should be same as that in the account opening form. In case of change in order of names, Investor has to fill in transposition request form along with the DRF.
7. After submitting the certificates, an acknowledgement slip duly signed by the DP should be collected.
8. Demat request form for dematerializing government securities is different and is called "DRF - GS".

Checklist for DP

Before accepting the form and share certificates for dematerialisation the DP should check:

a. Client has submitted the securities for dematerialisation along with the DRF.
b. No dematerialisation request, other than one from a registered holder of securities, has been entertained.
c. The certificates submitted by the client for dematerialisation belong to the eligible list of securities admitted by the Depository.
d. Verify that the DRF submitted by the client has been filled completely and duly signed.
e. Verify the signature of the client on the form and compare it with the specimen available in its records. If the signatures are different, the DP has to ensure proper identification of the client. In case the signature of the client recorded with the Issuer varies with the signature of the client as recorded with the DP, the client may submit to the DP a Signature Variation Form as per Form 42 alongwith the DRF.
f. The DP has to issue to the client an acknowledgement slip duly signed and stamped.
g. While submitting the shares they should be defaced by mentioning on it "surrendered for dematerialisation".
h. The depositories from time to time issues circulars cautioning DPs with respect to shares belonging to some companies. Such circulars should be referred to before accepting a demat request. Also the list of such companies is available on websites of depositories
i. If the form is in order, the request details are entered in its DP system and the DP system generates a Dematerialisation Request Number (DRN).
j. The DRN so generated is entered in the space provided for the purpose in the DRF. The details given in the DRF should match with the details of reports generated by DP system.

k. The DRF is forwarded to the Issuer or its R&T Agent only after ascertaining that the number of certificates annexed with the DRF tallies with the number of certificates mentioned on the DRF, within 7 days of its receipt.
l. The details of the certificates submitted for dematerialisation with the details filled up are in consonance with the DRF.
m. The client has marked the certificates submitted for dematerialisation with the words "Surrendered for Dematerialisation". As per CDSL Operating instructions, DP should deface and mutilate the certificates and not the client.
n. DP must ensure that the security certificates submitted for dematerialisation to the Issuer or its R&T Agent bear the DP name, DP Id and Client Id. The safety and security of the certificates submitted for dematerialisation till the certificates were forwarded to the Issuer or its R & T has to be ensured.
o. Punch two holes on the security certificates before forwarding them to the Issuer or its R&T Agent.
p. Ensure that the client has filled in a separate DRF for securities having distinct ISINs.
q. Ensure that the client has filled in a separate DRF for locked in and free securities having the same ISIN.
r. Ensure that the client has submitted a separate DRF for each of his/their accounts maintained with the DP.
s. Client Master Report (CMR) or a covering letter, DRF and certificates have to be sent to the correct address of the company where they are accepted. The depositories issues circulars giving information about the addresses where physical documents are accepted. This data is provided by depositories in form of a report which DPs can download and use.

7.3.3 Rejection of DRF

A demat request can be rejected in the case of the following objections. The two depositories may have different codes (as per SEBI guidelines, both depositories have adopted common rejection reasons), we here have attempted to cover most of the objections which may lead to rejection of the DRF request. The table below gives the reasons for rejection and the action that DPs need to take in case of each objection.

Sl. No.	Description of Objection	Action to be taken by DP/Client
1	Physical quantity of shares/certificates received by R&T Agent from DP is less than	DRN confirmed for partial/physical quantity received from DP or treated under objection for total/partial quantity by R&T Agent. R&T Agent may retain documents received from DP. DP/

2	what is mentioned in Demat Request Form **OR** Physical quantity of shares/certificates received by R&T Agent from DP is more than mentioned in Demat Request Form.	Client may contact R&T Agent for any further clarification and may submit fresh Demat Request Form to R&T Agent for excess quantity, if any, quoting reference of Objection letter and previous DRN to enable R&T Agent to link related entries/documents.
3 4 5 6	All/some certificates received by R&T Agent from DP is/are found to be fake. All/some certificates received by R&T Agent from DP is/are reported lost or stolen and a stop instruction is recorded in computer master file(s) of R&T Agent. Duplicate certificates earlier issued by R&T Agent in lieu of all/some certificates received for demat by R&T Agent from DP. All/some certificates received by R&T Agent are found to bear forged or fake endorsements of Name(s) of Holders	DRN confirmed for genuine/valid quantity received from DP or treated under objection for total/partial quantity by R&T Agent. R&T Agent may retain documents received from DP. DP/client may contact R&T Agent for any further clarification, quoting reference of Objection letter to enable R&T Agent to link related entries/documents.
7 8	Name(s) of Holder(s) on all/ some certificates received by R&T Agent differs in Demat Request Form received by R&T Agent from DP. **OR** Details of all/some certificate(s) differ in Demat	DRN confirmed for valid quantity received from DP or treated under objection for total/ partial quantity by R&T Agent. R&T Agent may retain documents received from DP. DP/Client may contact R&T Agent for any further clarification, quoting reference of Objection letter to enable R&T Agent to link related entries. DP/Client to submit fresh Demat Request Form to R&T Agent with

	Request Form received by R&T Agent from DP	correct particulars, quoting reference of Objection letter and previous DRN to enable R&T Agent to link related entries/documents.
9	All/some certificate(s) sent to incorrect R&T Agent by DP	R&T will not retain any of the incorrect or incomplete documents but will return all the documents to the DP. DP/Client may contact R&T Agent for any further clarification, quoting reference of Objection letter to enable R&T Agent to link related entries. DP/Client may forward documents to pertinent R&T Agent with fresh Demat Request Form.
10	Certificate(s) not received by R&T Agent in time from DP	DRN treated under objection and closed by R&T Agent. DP/Client may forward certificate(s) for dematerialisation with Demat Request Form to R&T Agent under a new/ fresh DRN.
11	Signature(s) of Client on Demat Request Form do not tally with specimen signatures of Holder(s) recorded with R&T Agent.	R&T Agent will return all the document and the DP will set up new DRN with the correct signature and documents. DP/Client may submit to R&T Agent a fresh Demat Request Form duly signed by holder(s) in exact manner as recorded earlier with R&T Agent. In case holder(s) is/are unable to reproduce the signatures as required, specimen of signature(s) of signature(s) on Demat Request Form may be verified by a Bank Manager, under his official stamp/seal, giving full particulars/details of holder(s) bank account number, etc. In case the signature of the client recorded with the Issuer varies with the signature of the client as recorded with the DP, the client may submit to the DP a Signature Variation Form as per Form 42 alongwith the DRF.
12	Stop recorded as per Bank Lien/Statutory Authority/Court Order/etc. in computer master file(s) of R&T Agent against all/some certificates) received for dematerialisation from DP	DRN confirmed for valid quantity received from DP or treated under objection for total/ partial quantity by R&T Agent. R&T Agent may retain documents received from DP. DP/Client may contact R&T Agent for any further clarification, quoting reference of Objection

		letter to enable R&T Agent to link related entries/documents
13	Demat request initiated under wrong ISIN.	R&T Agent may reject the demat request and forward the documents to the DP. A fresh Demat Request to be generated under the correct ISIN by the DP. The documents to be sent to the concerned R&T Agent.
14	Allotment/call money payment not attached	R&T Agent may reject the demat request and forward the documents to the DP. Client to attach the Allotment/call money payment advice and submit the same to the DP for generating a new DRN. In case of any clarification, DP/Client may contact R&T Agent quoting the reference number of the Objection letter.
15	Security certificates not available for demat	R&T Agent may reject the demat request and forward the rejected documents to the DP. DP to contact the client and inform the client accordingly.
16	Rejected under Automatic Corporate Action	R&T Agent may process the demat request of the investor. If the documents are found in order the R&T Agent may credit the account of the client with proportionate number of shares through Credit Corporate Action. Client to check the Transaction Statement and if the shares have not been credited in the demat account, client to contact the Company/R&T Agent.

The DRFs may also be rejected on miscellaneous grounds. These could be any of the reasons as given below (points I to V):

Sl. No.	Description of Objection	Action to be taken by DP/Client
I	Recovery pending from Client for double or excess payment of Dividend/Interest made by R&T Agent.	R&T Agent may retain DRN and documents received from DP for DRN treated under objection. DP/Client may contact R&T Agent for any further clarification, quoting reference of

		Objection letter to enable R&T Agent to link related entries. Client to refund of amount to R&T Agent, quoting reference of Objection letter and DRN to enable R&T Agent to link related entries/documents.
II	Duplicate Interest warrants issued by R&T Agent as per request of Client and bank reconciliation incomplete to determine status of payment.	R&T Agent may retain DRN and documents received from DP for DRN treated under objection. DP/Client may contact R&T Agent for any further clarification, quoting reference of Objection letter to enable R&T Agent to link related entries. DP/Client to await some time for bank reconciliation completion by R&T Agent, before DRN is confirmed or treated under objection as in 13 (i).
III	All/some certificates held under different Holding basis (i.e. Single or Joint) is/are received by R&T Agent under same DRN.	Refer objection codes 7 and 8 above for action taken by R&T Agent and to be taken by DP/Client.
IV	All/some certificates sent by DP to incorrect address or office(s) of R&T Agent. [For e.g.: All operations of Master Growth and Grand Master schemes of Unit Trust of India are handled on completely decentralised basis and computer master file(s) are separately maintained at specific locations. DPs have to therefore, forward documents for demat to R&T Agent's address at Mumbai, Calcutta, Delhi and Chennai mentioned on reverse of every certificate].	DRN confirmed for valid quantity received from DP or treated under objection for total/ partial quantity by R&T Agent. R&T Agent may retain some documents and others returned to DP by R&T Agent. DP/Client may contact R&T Agent for any further clarification, quoting reference of Objection letter to enable R&T Agent to link related entries. DP/Client may forward documents to pertinent address or office(s) of R&T Agent with fresh Demat Request Form.
V	All/some certificates received by R&T Agent from DP do not relate to ISIN (Scheme/ Security code)	Refer objection codes 7 and 8 above for action taken by R&T Agent and the steps taken by DP/Client.

	mentioned in Demat Request Number or Form.	

The DP has to inform his client about the rejection if and when the R&T Agent has rejected the DRF.

Subsequent Disputes

Any dispute regarding the title of securities (in physical form) after they have been dematerialised and credited to a client's account, has to be settled amongst the DPs, clients and Issuer or its R&T Agent. The procedure for dispute settlement is laid down in SEBI Guidelines for Good and Bad Delivery of documents, as is done in the case of physical securities.

7.3.4Transposition cum Dematerialisation

The depositories have amended their Bye-Laws and procedure to enable investors to transpose names of the joint holders alongwith the process of dematerialisation through their DPs. Prior to this amendment, investors having shares in joint names (Mr. A & Mr. B), but in different sequence (Mr. B & Mr. A) were either required to open multiple accounts for each sequence (Mr. A & Mr. B and Mr. B & Mr. A) or to effect the transposition directly with the Issuer/R&T Agent and then dematerialize their securities through their DPs. In case of transposition-cum-dematerialisation, the Client can get securities dematerialised in the same account if the names appearing on the certificates match with the names in which the account has been opened but are in a different order. The same may be done by submitting the security certificates along with the Transposition Form and DRF.

7.3.5 Transmission cum Dematerialisation of Securities

In case of death of one or more of the joint holders, the surviving joint holder(s) can get the name(s) of the deceased removed from the security certificate(s) and get them dematerialised by submitting the security certificates along with the Transmission Form and the DRF to the Participant. Original or copy of the death certificate of the deceased holder(s), duly notarised or attested by a Gazetted Officer or by a notary public.

The DP should ensure that the demat account is in the name of the surviving holders only.

Procedure to be followed if Physical Securities are lost in Transit

In cases where the Issuer/RT Agent has received information, setup by the DP, about dematerialisation electronically from the depository but physical certificates have not been received, the procedure to be followed is as under: –

• The DP shall provide the Issuer/RT Agent proof of dispatch and also confirm that the certificates are not returned undelivered at their end.
• If the certificates have not been returned undelivered and are not traceable at the Issuer/RT Agent's office, then it will be assumed that the certificates have been lost in transit. In such a case, the DP shall execute an Indemnity Bond in favor of the Issuer/RT Agent.
• If the Issuer/RT Agent has already rejected the original demat request, then a fresh demat request is to be set up by the DP and the Indemnity Bond duly executed shall be submitted to the Issuer/RT Agent, along with a new DRN. The Issuer/RT Agent shall accept the demat request and carry out dematerialisation on the basis of the Indemnity Bond given by the DP.
• In cases where the Issuer/RT Agent has rejected the demat request (for such a reason where the rejection can be rectified by the BO/DP), and dispatched the same to the DP, and such certificates are lost in transit, then an Indemnity Bond is to be executed and submitted to the Issuer/RTA along with a new DRN. In such cases, the DP is required to obtain prior consent from the Issuer/RTA for execution of Indemnity.
• However, in cases where the Issuer/RT Agent has rejected the demat request (for such a reason where the rejection cannot be rectified by the BO/DP), the Issuer/RT Agent will retain the documents. Such rejections may be on account of Fake / Forged / Duplicates already issued / Court Injunctions, etc. In such cases, the DP should obtain rejection letters from the Issuer/RT Agent& hand over the same to the BO in order to enable the BO to take up the matter with the Issuer/RT Agent concerned.

Procedure for Dematerialisation of Shares which are held in more than three names

In case the number of joint holders are more than three, the DP has to process the dematerialisation request as per usual procedure ensuring that the main BO name is mentioned as first account holder and the balance joint holders are accommodated in the two joint holders' names but ensuring that the pattern of holding as per the certificate tallies with the pattern of holding as per the account. In both the depositories system the first holder's name is entered in the first holder's field and the rest of the names are accommodated in the fields for second and the third holder, eg. : - In case of joint holdings in four joint names of Mr. A, Mr. B, Mr. C & Mr. D, the account can be opened in the system as follows; First Holder's Name: 1. Mr. A; Second Holder's Name 2. Mr. B; Third Holder's Name 3. Mr. C 4. Mr. D. Further, the standing instructions to receive credits, receipt instructions, new issue applications and any other instruction which has the effect of crediting this account should not be accepted. Appropriate annexure should be attached to the account opening form in order to include various details viz., name, address, signatures, etc. of more than three holders. An undertaking should be obtained from the Client on the lines that "the Client shall not use this account for the purpose of allotments in the primary market or purchases from the secondary market and hence no instructions other than for

dematerialisation, bonus, rights & preferential offer will be given by the Client to any person which has the effect of crediting this account".

Such an account should be used only for the purpose of dematerialisation and once all certificates have been dematerialised, such account should be closed and shares transferred to a new account opened in the name of maximum three holders

7.3.6 Enhanced Due Diligence for Dematerialization of Physical Securities

As per the amended SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2018 (LODR), transfer of securities held in physical mode is not permitted since April 01, 2019. SEBI vide its circular had issued standardized norms with respect to documentation / procedure for transfer of physical securities.[32]

To augment the integrity of the system in processing of dematerialization request in respect of the remaining physical shares, the Depositories and the listed companies / RTAs were directed to implement the following due diligence process:

All listed companies or their RTAs were advised to provide data of their members holding shares in physical mode, viz., the name of shareholders, folio numbers, certificate numbers, distinctive numbers and PAN etc. (hereinafter, static database) as on March 31, 2019, to the Depositories, latest by December 31, 2019. Depositories were required to capture the relevant details as given above from the static database and put in place systems to validate any dematerialization request received after December 31, 2019.

Accordingly, the depository system is required to retrieve the shareholder name(s) recorded against the folio number and certificate number in Static Data for each DRN request received after this date and validate the same against the demat account holder(s) name as available in the records of the Depositories.

In case of mismatch of name on the share certificate(s) vis-à-vis name of the beneficial owner of demat account, the depository system shall generate flag / alert. For cases, where such flags / alerts are generated, the documents like copy of passport, legally recognized marriage certificate, gazette notification regarding change in name, aadhar card explaining the difference in name, shall be sought.

[32] SEBI circular No. SEBI/HO/MIRSD/DOS3/CIR/P/2018/139 dated November 06, 2018.

In the case of complete mismatch of name on the share certificate(s) vis-à-vis name of the beneficial owner of demat account, the applicant may approach the Issuer company / RTA for establishing his title / ownership.

7.4 Rematerialisation

Rematerialisation is the reverse of dematerialisation. It refers to the process of issuing physical securities in place of the securities held electronically in book-entry form with a depository. Under this process, the depository account of a beneficial owner is debited for the securities sought to be rematerialised and physical certificates for the equivalent number of securities is/are issued.

A beneficial owner holding securities with a depository has a right to get his electronic holding converted into physical holding at any time. The beneficial owner desiring to receive physical security certificates in place of the electronic holding should make a request to the Issuer or its R&T Agent through his DP in the prescribed Rematerialisation Request Form (RRF).

On receipt of RRF, the DP checks whether sufficient free /lock-in balance of the securities sought to be rematerialised is available in the account of the client. If sufficient balance is available, the DP accepts the RRF and communicates the request to the depository through the DP system.

When the depository receives such a rematerialisation request, it intimates the Issuer or its R&T agent about such requests. The depository sends this intimation to R&T agents on a daily basis.

DP should forward the RRF to the Issuer or its R&T Agent within seven days of accepting the RRF from the client. The Issuer or its R&T Agent, after validating the RRF, should confirm to the depository that the RRF has been accepted. On receipt of such acceptance from the Issuer or its R&T Agent, the depository removes the balances from the respective client's account by debiting the account. On rematerialisation, R&T Agent issues security certificates as per the specifications given by the client in the RRF. Thereafter, the Issuer or its R&T Agent despatches the security certificates for the rematerialised securities to the client and his name is entered in the Register of Members of the company. The certificate of securities should be sent to the clients within a period of 30 days from receipt of such RRF by the Issuer or its R&T Agent.

The new certificates may not necessarily bear the same folio or distinctive numbers as those that investor had previously, i.e., prior to his getting them in demat form.

When a rematerialisation request is sent, the securities in the client account will not be available for delivery/transfer immediately. The client will have to wait for physical certificates to reach him before they can be sold. Thus the client would encounter temporary illiquidity on the securities requested for in rematerialised form.

7.4.1 Prerequisites for a Rematerialisation Request

- The beneficial owners of the securities should make the request.
- There should be sufficient free /lock-in balance of securities available in the beneficiary account to honour the Rematerialisation request.

7.4.2 Rematerialisation Process

a. The DP should provide Rematerialisation request forms (RRF) to clients.
b. The client should complete RRF in all respects and submit it to the DP.
c. The DP should check RRF for validity, completeness and correctness. In particular, the following points should be checked:
    - Free / lock-in balance available in the client's account to honour the Rematerialisation request.
    - The name of client on RRF is exactly the same as that in the client account.
    - In case of joint holding, the order of names appearing on RRF is the same as in the client's account.
    - Correctness of the details filled in such as the security type, face value, Issuer's name and lock-in status.
    - The clients option whether to receive the physical certificates either in jumbo lot for the entire quantity requested or in market lot.
    - Separate RRF are submitted for
        - free and locked-in securities;
        - securities locked-in for different reasons;
        - each ISIN; and
        - securities of different paid-up value;
    - RRF is signed by
        - the sole holder in case of single holding;
        - all joint holders in case of joint holding,
        - authorised signatories in the case of corporate accounts,
        - constituted attorney in the case of NRI accounts;
d. If RRF is not found in order, the DP should return the RRF to the client for rectification.
e. If RRF is found in order then the DP should accept RRF and issue an acknowledgement to the client.

f. DP should enter the Rematerialisation request in DP system. The DP system will generate a remat request number (RRN) which should be mentioned on RRF.
g. An authorised person, other than one who entered the RRF details in DP system, should verify the details of RRN and release the request to the depository. (Not in CDSL)
h. The DP should complete the authorisation of RRF and forward it to the Issuer or its R&T Agent for rematerialisation. The DP should forward RRF to the Issuer or its R&T Agent within seven days of accepting it from the client.
i. The Issuer or its R&T Agent should verify the RRF for validity, completeness and correctness. It should also match the details with the intimation received from the depository against the same RRN.
j. In case the Issuer or its R&T Agent finds RRF in order, it should confirm the remat request. The Issuer or its R&T Agent should then proceed to issue the physical security certificates and despatch them to the beneficial owner.
k. In case RRF is not found to be in order, the Issuer or its R&T Agent should send an objection memo to the DP, with or without RRF, depending upon the reason for rejection. RRFs are sent back on the following grounds:
    - Incomplete or incorrect RRF
    - RRF details mismatch
    - RRF not received by registrar
    - Rejected due to Auto Corporate Action
l. The DP, on receiving confirmation of debit entry in the DP system, should inform the client accordingly.
m. Issuer / R & T Agent should send the certificate to BO within 30 days from the date of confirming the request in the depository system.
n. No trading is possible on the securities sent for Rematerialisation.

7.5 Conversion of Mutual Fund units represented by Statement of Account (SOA) into dematerialized form through a DP / De-statementization

De-statementization is the process, which enables BOs to convert their mutual fund units represented by Statement of Account (SoA) in physical form to electronic form and hold the same in their demat account.

- BOs desirous of converting their Mutual Fund units represented by Statement of Account (SoA) into electronic form shall approach their DP for the same.
- The DP shall hand over a Mutual Fund De-statementization Request Form (MF-DRF) to the BO.

- The BO shall submit separate MF-DRF for each account and for each RTA. Similarly, separate entry should be filled up for each lock-in reason/expiry date combination, ISIN- wise.
- The BO shall have the option to submit request either for entire holding by mentioning the quantity as 'ALL' without the requirement of entering any quantity in the quantity field or for partial or entire holding by mentioning the quantity in the quantity field.
- The BO shall submit the SoA or a photocopy of the SoA or copy of the SoA downloaded from the internet along with the duly filled MF-DRF to the DP.
- The DP shall ensure the following:
  - MF units contained in the SoA are admitted with Depository and are eligible for conversion into electronic form.
  - The name and the pattern of holding of the BO's demat account matches with the name and the pattern of holdings as mentioned in the SoA.
  - Separate MF-DRFs are filled up for each RTA.
  - MF-DRF should be completely filled and signed by all the account holders.
  - The number of pages of SoA mentioned in the MF-DRF is verified with the SoA before accepting the MF-DRF.
- If the MF-DRF is complete, then DP shall capture the details in the Depository system, using the MF-DRF & SoA and shall generate the Destatementization Request Number (DRN) for each ISIN. The DP shall write down the DRN against the respective ISIN on the MF-DRF or submit to the RTA a letter containing the details of the MF-DRF-DRN and ISIN along with the MF-DRF. The MF-DRF and the letter if submitted should be duly authorised by the DP by putting its seal and signature. The system-generated acknowledgement of the conversion request duly stamped and signed by the DP official shall be given to the BO.
- The MF-DRF shall be authorised by the DP official by affixing seal & signature. The original MF-DRF and the SoA shall be sent to the AMC/RTA along with a system-generated covering letter signed and stamped by DP official. A copy of the MF-DRF is to be maintained by the DP for its own reference and records. Defacing and mutilation of SoA is not required to be done.
- The DP may capture the despatch details on the Depository system, such as the despatch reference number, despatch date, name of courier, etc. The DP shall despatch the physical documents to the AMC / RTA within 7 days from the date of receiving the same from the BO. After receiving the physical documents, AMC/RTA shall compare the physical documents with the electronic data.
- If the details match/ tally between the physical records submitted by the BO with the electronic records kept by the AMC/ RTA, the BO account shall be credited with MF units.

- In cases where the destat request is for the entire quantity (option 'ALL') AMC/RTA shall confirm / reject the entire balance (which is available at the time of confirmation) / partial balance in the respective folio with them.
- In case of mismatch of the quantity of units represented by the statement of account and the electronic records of AMC/RTA, the AMC/RTA shall credit the BO account with such number of units as are requested by the BO and available in the records of AMC/ RTA. Balance units, if any, are to be rejected by the AMC/RTA.
- For other types of mismatches, AMC/ RTA may reject the DRN. The MF-DRF and SoA shall be returned to the DP under a Rejection Memo, specifying the reason for rejection. The AMC/RTA should complete processing of the conversion request within 15 days of receiving the physical documents.
- If the conversion request is not processed by the AMC/RTA within 21 days after it has been set up on the system, then the DP should follow up with the AMC/RTA. If the DP does not get the documents within 30 days from the date of rejection by AMC/RTA, then DP should follow up with the AMC/RTA.
- In case of rejection, the DP shall forward the rejection letter sent by the AMC/RTA to the concerned BO within 7 days from receipt of the same.

The rules regarding reconciliation of Destat requests and maintenance records will be same as applicable for dematerialisation of securities.

In case any objection memo has been received for such units from the Issuer or its Registrar and Transfer Agent, the DP shall facilitate the correction of such objections on a timely basis.

Destatementization request in electronic mode

The DP may accept destat request from the BO electronically without submission of physical document; provided that following requirements are fulfilled.

i. If the instruction is received through internet portal of the DP, approval from Depository for the acceptance of instructions through such DP's portal should be on record.

ii. The BO is an individual sole holder.

iii. The DP shall follow Operating Instructions for destat to the extent applicable for electronically received instruction.

DP shall inform RTA about setup of such destat requests giving details about destat request no. and ISIN by a letter or email or in any other mode prescribed by depository.

7.6 Reconversion of Mutual Fund Units into Statement of Account Form (SOA Form) / Restatementization

Restatementization is a process by which the MF units held in electronic form are converted into physical form i.e., Statement of Account (SoA) /certificates at the request of the Beneficial Owners. In the case of Repurchase / Redemption, the payment is made to the BOs by the AMC/RTA in lieu of MF units held expunged.

- BO desirous to have his electronic holdings of MF units with the Depository restatementized (SoA/ certificate form) shall fill the Restatementization Request Form, in duplicate, and submit the same to his DP. All joint holders, if applicable, should sign the MF-RRF.
- MF-RRF can be signed by the POA holder also provided the POA is registered with the AMC/RTA.
- Separate entry should be setup for MF units that are free and for each type of lock-in reason code and lock-in expiry date. The BO shall have the option to submit restat request either for entire holding by mentioning the quantity as 'ALL' without the requirement of entering any quantity in the quantity field or for partial or entire holding by mentioning the quantity in the quantity field.
- The ISIN should not be Inactive / Frozen for debits.
- The DP shall capture the details from the MF-RRF in the Depository system and shall generate the Restat Request Number [RRN].
- The original MF-RRF will be sent to AMC/ RTA. The RRN shall be accessed by AMC/RTA electronically.
- If investor submits the MF-RRF form for restat of the entire holding in his demat account, the DP shall set up restat request with the quantity option as "ALL" in the system without requirement of entering any quantity. In such case, AMC / RTA may confirm / reject the entire balance [which is available at the time of confirmation] / partial balance in the corresponding folio with them.
- If investor submits the MF-RRF form by mentioning the Quantity [Full or Partial] then the DP shall set up Restat request with the quantity as mentioned in MF-RRF form. In such case, AMC / RTA may (a) confirm the maximum balance upto the setup quantity + allowable maximum quantity / partial balance with respect to setup quantity in the corresponding folio with them, (b) reject the balance upto the setup quantity / partial balance with respect to setup quantity in the respective folio with them.
- Modification is not allowed in case of Restatementization. Deletion of RRN is allowed in case of Restatementization, if the same is not downloaded by the AMC/RTA. If Restat is setup due to an erroneous request from the BO then the deletion shall be authorised by the BO.

- The DP shall note the RRN on the MF-RRF or submit to the RTA a letter containing the details of the MF-RRF-RRN and ISIN along with the mutual fund Restatementization Request Form-MF-RRF. The MF-RRF and the letter if submitted should be duly authorised by the DP by putting its seal and signature.
- The DP shall follow up with the AMC/RTA if the restat request is not honoured within the prescribed time limit i.e. within 30 days and keep on record the follow-up done.
- The AMC/RTA shall electronically intimate the rejection of MF-RRF and send the rejection letter to DP for necessary correction / rectification.
- The DP shall carry out the necessary rectification in consultation with the BO/ RTA, and set up a fresh restat request.

7.7 Credit of units of AIFs in dematerialised form[33]

SEBI had specified issuance of units of AIF's in dematerialised form according to a set timeline. Further, SEBI has not specified the process to be followed for dematerialising/crediting the units issued, in cases where investors are yet to provide demat account details to AIFs.

Managers of AIFs shall continue to reach out to existing investors to obtain their demat account details and credit the units issued to them to their respective demat accounts. Depositories shall also aid in this process. In this regard, AIF industry and depositories shall adopt implementation standards as formulated by the pilot Standard Setting Forum for AIFs ('SFA').

Units already issued by schemes of AIFs to existing investors who have not provided their demat account details, shall be credited to a separate demat account named *"Aggregate Escrow Demat Account"*. This account shall be opened by AIFs for the sole purpose of holding demat units of AIFs on behalf of such investors. New units to be issued in demat form shall be allotted to such investors and credited to the Aggregate Escrow Demat Account.

As and when such investors provide their demat account details to the AIF, their units held in Aggregate Escrow Demat Account shall be transferred to the respective investors' demat accounts within 5 working days. No transfer of units of AIFs from/within Aggregate Escrow Demat Account shall be allowed, other than for the aforesaid purpose.

Units of AIFs held in Aggregate Escrow Demat Account can be redeemed and proceeds shall be distributed to respective investors' bank accounts with full audit trail of the same. Managers of AIFs shall maintain investor-wise KYC details of units held in Aggregate Escrow Demat Account,

[33] SEBI Circular no. SEBI/HO/AFD/PoD1/CIR/2023/186 dated December 11, 2023.

including name, PAN and bank account details, along with audit trail of the transactions. The same shall also be reported to Depositories and Custodians on a monthly basis.

7.7.1 Off-market transfer and pledge creation of AIF units

The off-market transfer and Pledge creation of AIF units in dematerialised form will get executed successfully only after the approval of Investment Managers (IMs).

- Terms of transfer or creation of pledge on units of AIF held by an investor in dematerialized form shall continue to be governed by the terms of PPM, agreements entered between AIF and the investors, and any other fund documents.
- If the fund documents require prior approval of Investment Manager ("IMs") for transfer of units or creation of pledge, then such transactions shall be facilitated by depositories only after the approval of IMs.
- Separate logins are provided to IMs for approving the off-market and pledge transactions.

Review Questions

Questions to assess your learning:

1. Only those securities whose _____has been activated by the depository, can be dematerialised in the depository system
   (a) ISIN
   (b) WAP
   (c) IIP

2. Who can make a request for demat of the security?
   (a) Company
   (b) Registered holder of the security
   (c) Depository
   (d) Depository Participant

3. It is possible for investors to transpose names of the joint holders alongwith the process of dematerialisation through their DPs. State whether True or False?
   (a) False
   (b) True

4. Within how many days of request for remat of securities should the client receive the physical securities
   (a) 45 days
   (b) 30 days
   (c) 7 days
   (d) 15 days

Chapter 8: Functions of Depository Participant-Trading and Settlement

Learning Objectives:

After studying this chapter, you should know about:

- The role of depository participant in facilitating the transfer of securities from one account to another
- Process flow of settlement of securities in an off-market transaction
- Concepts and procedures related to settlement of securities

8.1 Introduction

One of the most important and basic services provided by the depositories in India is to facilitate transfer of securities from one account to another at the instruction of the account holder. In the depository system both transferor and transferee have to give instructions to its DPs for delivering (transferring out) and receiving of securities. Transferee however, can give *'Standing Instructions'* [SI] to its DP for securities to be received[34]. If SI is not given, the transferee has to give separate receipt instructions each time securities have to be received.

Transfer of securities from one demat account to another may be done for any of the following purposes:

a. For execution of off-market transaction i.e. transactions between two accounts on mutually agreeable terms, i.e. a transaction done on a person-to-person basis, without going through the stock exchange mechanism.
b. Transfer arising out of a trade executed on a stock exchange.
c. Transfer arising out of transmission and account closure.

A beneficiary account can be debited only if the beneficial owner has given 'Delivery Instruction' (DI) in the prescribed form i.e. the Delivery Instruction Slip (DIS).

The DI for an off-market trade or for a market trade has to be clearly indicated in the form by marking appropriately. The form should be complete in all respects. All the holder(s) / authorised signatory (ies) / POA holder(s) of the account have to sign the form. If the debit has to be effected on a particular date in future, account holder may mention such date in the space provided for 'execution date' in the form.

[34] 'SI' is also identified as 'Purchase waiver' or 'Confirmation waiver' in CDSL.

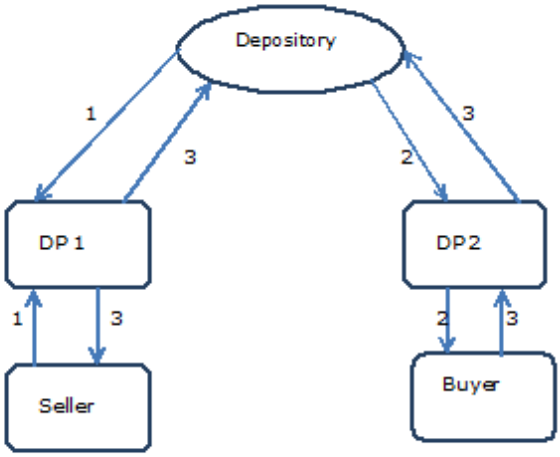
SEBI had vide its Circular No. CIR/MRD/DP/ 01/2014 dated January 07, 2014 issued guidelines regarding standardization, monitoring and scanning of DIS. DPs are required to scan the DIS and tag it to correct DIS serial number while uploading the scan image of DIS in the NSDL/CDSL system immediately but not later than two days. A report is provided to DPs giving details of those DIS which are used for transaction but scanned image of DIS is not uploaded in NSDL/CDSL system. In case of failure to scan & upload the DIS in NSDL/CDSL system within prescribed time, DPs are levied penalty as per pre-defined penalty structure. These guidelines are effective from October 1, 2014.

This chapter deals with settlement of off-market trade and market transfer for instructions received in the prescribed form as given above. Transfers arising out of transmission and account closure have already been discussed in the previous chapters on transmission and account opening respectively.

8.2 Settlement of Off-Market Transactions

Any trade that is cleared and settled without the participation of a clearing member or clearing corporation is called off-market trade, i.e., transfer from one beneficiary account to another due to a trade between them. Large deals between institution, trades among private parties, transfer of securities between a client and a sub-broker, large trades in debt instruments are normally settled through off-market route. Figure 8.1 shows the flow in an off-market transaction.

Figure 8.1: Off-Market Transactions



1. Seller gives DIs to his DP to move securities from his account to the buyers account.

2. Buyer automatically receives the credit of the securities into his account on the basis of SI for credits.

3. Buyer receives credit of securities into his account only if gives receipt instructions, if SI have not been given.

4. DP needs to be extra careful in verifying the signature of the client if large quantities of securities are being debited to the account.

5. Funds move from the buyer to the seller outside the depository system.

The transferor will submit a DIS with 'off-market trade' ticked off to initiate an off-market debit. The account holder is required to specify the date on which instruction should be executed by mentioning the execution date on the instruction. The debit will be effected on the execution date. DP will enter the instruction in the DP system if the instruction form is complete in all respects and is found to be in order. DP system will generate an 'instruction ID' for each instruction entered. DP will write the instruction ID on the instruction slip for future reference.

The instruction will be executed on the execution date. If there is adequate balance in the account, such quantity will be debited on the execution date. If adequate balances do not exist in the account, then instruction will wait for adequate balances till the end of the execution day. In NSDL, the account will be debited immediately on receipt of adequate balances in the account. In CDSL, the account will be debited after predefined intervals of time on receipt of adequate balances in the account. In cases where adequate balances are not received till the end of the day of the execution date, the instruction will fail, both for NSDL and CDSL.

Transferee will receive securities into the account automatically if SI were given to the DP at the time of account opening. If SI is not given, transferee has to submit duly filled in 'Receipt-Instruction' (RI) form for every expected receipt. Exchange of money for the off-market transactions are handled outside the depository system.

Consideration Details

For all off-market transfers made for the reason 'off market sale/purchase', in addition to mandatorily capturing consideration, DPs must also mandate clients to provide evidence of the consideration details. The DP's shall be required to mandatorily obtain the following payment details in the DIS from the client:

a) Mode of payment which can be Cash, Cheque or Electronic payment
b) Bank Account Number
c) Date of payment
d) Bank Name
e) Branch Name
f) Transferee Name
g) Date of Issue / Transfer
h) Cheque / Reference Number

In case mode of payment is Cheque or Electronic payment, the following needs to be mentioned:

a) Transferee's name, bank account number and bank name.
b) Transaction reference number for electronic payments or cheque number for cheque payments.

One Time Password (OTP) for off market transfers

SEBI implemented the facility of obtaining client's consent through One Time Password (OTP) for all off-market transfers (i.e. Transfer of securities within the depository as well as inter-depository transfer) of securities, from source client's Demat Account with execution date of November 1, 2020.

All off-market transfer of securities shall be permitted by the Depositories only by execution of Physical Delivery Instruction Slip (DIS) duly signed by the client himself or by way of electronic DIS and client's consent is required to be obtained through OTP for such off market transfer of securities from client's demat account as stated above.
For CDSL Participants, OTP authentication functionality will be implemented in similar manner, just as Margin Pledge OTP authentication functionality.

For NSDL Participants, on the execution date of off-market transfer instruction, a link would be generated and sent by the depository on mobile number and e-mail id as registered in the demat account of the client. On clicking the said link, client will be redirected to a web page where after authentication, client will be displayed the details of off-market transfer instructions for the specific demat account which are pending for his confirmation. On OTP confirmation, Off Market Transfer instruction(s) as selected by the client will be processed, subject to payment of stamp

duty, as applicable. As the off-market transfer instructions have to be confirmed by the client using OTP, Participants may guide their clients to ensure that the mobile number and / or email ID is registered in the demat account of the clients. Transactions pending for OTP confirmation will be reflected in the new status "Pending for OTP Confirmation" and in case OTP confirmation is not completed till EOD of the execution date (from November 1, 2020 onwards), transactions lying in the aforesaid status will be rejected.

However, this requirement of obtaining consent through OTP has been waived off by SEBI for off market transfer reason code "Implementation of Government / Regulatory Direction / Orders".

Adding Beneficiary details for execution of 'Off-Market' transfers

SEBI implemented the facility of adding and verifying the beneficiary details before execution of off-market transfers including inter-depository off market transfers.

Off -market transfers are allowed only if, demat account of the buyer (i.e. transferee account) is added as Beneficiary under the demat account of the seller (i.e. transferor account). Seller client is required to submit a 'registration form' to its DP as per the format specified by the Depositories to its Depository Participant. The seller client is required to authenticate the beneficiary details by providing the OTP. On successful verification, the buyer details will be stored as 'Beneficiary' under the demat account of the seller client. The said pre-requisite of adding beneficiary details is applicable to all 'Off-Market Reason codes' available in the system.

8.3 Settlement of Market Transactions

A market trade is one that is settled through the participation of a Clearing Corporation/ Clearing House (CC/CH). In the depository environment, the securities move through account transfer. Once the trade is executed by the broker on the stock exchange, the seller either gives an on-market delivery instruction to his DP to transfer securities to his broker's account or on behalf of his broker gives normal pay-in or early pay-in delivery instruction to his DP.

In case of CDSL and NSDL, the seller BO can deliver the securities directly to the CC of the exchange (BO Level pay-in) through the Block Mechanism introduced with effect from 1st August 2021 especially for BOs undertaking Sale transactions and early pay-in.

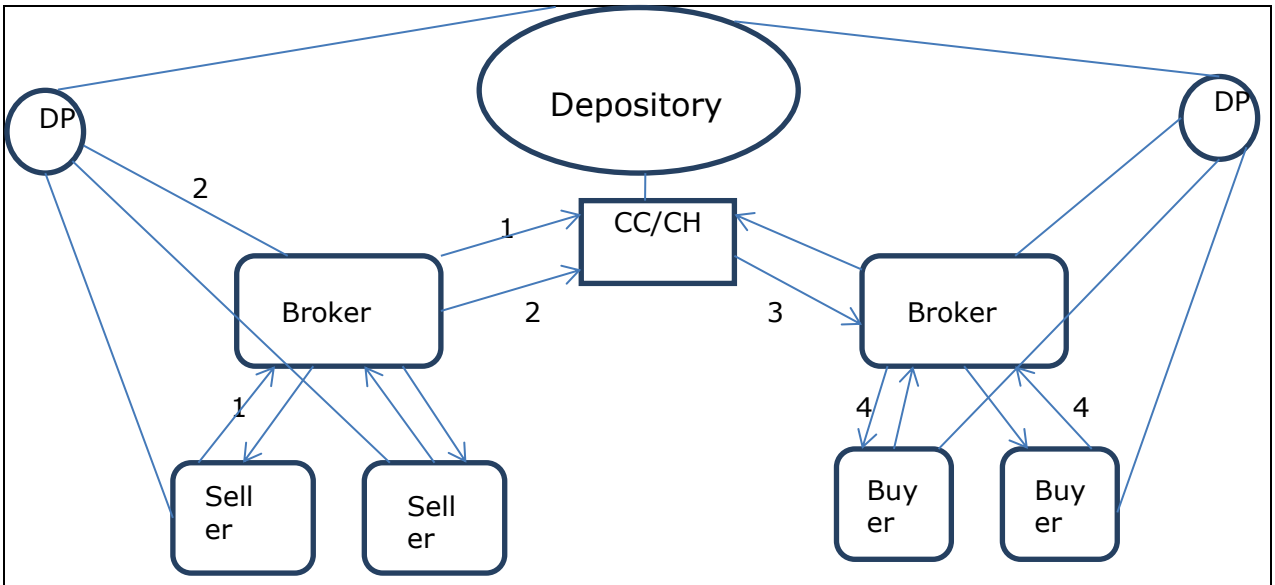
When the client intends to make a sale transaction, shares will be blocked in the demat account of the client in favour of Clearing Corporation. If sale transaction is not executed, shares shall continue to remain in the client's demat account and will be unblocked at the end of the T day.

Thus, this mechanism will do away with the movement of shares from client's demat account for early pay-in and back to client's demat account if trade is not executed. [35]

The broker has to ensure that the pay-in instruction [normal pay-in or early pay-in] is entered using the CM ID and / or ensure that sufficient balance is there in his CM account / respective settlement number and market type before the pay-in deadline prescribed by the stock exchange.

The CC/CH gives pay-out and securities are transferred to the buying broker's account. The broker then gives delivery instructions to his DP to transfer securities from its CM account to the buyer's account. If a broker gives pay-out breakup of his clients to CC/CH then pay-out securities are directly credited in the clients account by the CC/CH. The movement of funds takes place outside the depository system. Figure 8.2 shows the settlement in case of market transactions.

Figure 8.2: Market Settlement –Demat Shares



1. Seller gives DIs to his DPto move securities from his account to the brokers account
2. Securities are transferred from broker's account to CC on the basis of a delivery out instruction.
3. On pay-out, securities are moved from CC to buying broker's account.
4. Buying broker gives instructions and securities move to the buyer's account.

[35] SEBI circular Ref. No. SEBI/HO/MIRSD/DOP/P/CIR/2021/595, Dated July 16, 2021.

Transfer of securities towards settlement of transactions done on a stock exchange is called settlement of market transaction. This type of settlement is done by transferring securities from a beneficiary account to a clearing member/early pay-in account. Unique Client Code (UCC) details are mandatory for settlement of market transactions.

Brokers of stock exchanges that offer settlement through depository are required to open a 'clearing member account'. The type and number of accounts opened may vary across depositories. In addition to the brokers, custodians registered with SEBI and approved by stock exchanges can open a clearing member account. These accounts are popularly known as 'Broker settlement account' or 'Broker pool account'. A client who has sold shares will deliver securities into the CM account of the broker through whom securities were sold.

8.3.1 Important Terms related to transaction on a Stock Exchange

The following are important descriptions of a transaction done on a stock exchange. All these descriptions have to be written on the 'DIS'.

Market Type

Stock exchanges offer different market segments in which trades can be done. The segmentation is done by the type of settlement or type of trade. Each of the segments is denoted as 'market type' in the depository system. The DIS should contain the name of the stock exchange, market type and settlement number for which securities are being transferred to the clearing member accounts. The contract note/trade confirmation slip given by the broker will indicate the settlement details.

Settlement Number

Trading periods of each of the market segments is identified by a settlement number. Every settlement number has a trade beginning day, trade-ending day, settlement pay-in day and settlement pay-out day etc. Stock exchanges divide a period of one year [financial year or calendar year] into several settlement periods and allocate settlement number for each settlement-period. All these days collectively are called 'settlement calendar'. The Depository system will give complete details of settlement calendar for each stock exchange. The DIS should contain the settlement number for which the securities are being transferred to the clearing member account.

Clearing Member

Every broker in a stock exchange participating in settlement process through depository is required to open clearing member account. These are identified with BOIDs / CM BP IDs and called as 'CM accounts'. If a broker deals in more than one stock exchange, he is required to have

a separate set of CM accounts per stock exchange. The DI slip should contain the BOID / CM BP IDs of a CM account relevant to the stock exchange in which the trade was done.

Delivery Deadline

Stock exchanges set a deadline time by which clearing member are expected to deliver securities. Clearing member can deliver securities within the deadline time only if they have received securities from their clients. In order to ensure that clients give securities in time to the clearing member, SEBI has prescribed deadline time by which clients have to give securities to clearing members. SEBI has advised DPs to instruct their clients to submit the settlement instructions on T+1 (in physical form upto 4 p.m. and 6 p.m. in case of electronic instructions) for pay-in of securities. For example, pay-in for trades executed on 'Monday' will be on Wednesday. Hence, clients will have to submit instructions to their Participants (upto 4 p.m. in case of physical and upto 6 p.m. in case of electronic instructions) on Tuesday. The client must submit the DIS to its DP before the DPs acceptance deadline. The steps involved in the Pay-in and Pay-out of securities are discussed in the section below.

Steps in Pay-in and Pay-out:

The process of a broker/trading member submitting securities sold by him on behalf of his client, to CC of a stock exchange is called 'pay-in'. All CM's are expected to complete the pay-in before the deadline time prescribed by the stock exchange. In a depository environment, the following steps have to be completed to execute the 'pay-in' successfully:

- The clients of the brokers who have sold securities will move the securities to the broker settlement account before the deadline time.
- Securities that are made available for pay-in by seller clients [on behalf of CMs] and clearing members through various settlement related instructions before the deadline time given by the stock exchange would be informed to CC in a pay-in file. If the seller client or CM is unable to deliver the securities within a pay-in deadline time, the short deliveries are auctioned and are purchased by the CC in an open auction. This difference in price is borne by the defaulter CM.

The process of a CC transferring the securities to the broker's CM -account for the quantity of securities purchased by them on behalf of their clients is known as 'pay-out'. Payout time is also pre-determined by the settlement calendar. The following steps are taken to distribute securities received in pay-out to buying clients:

- The CC credits the buying CM account immediately on pay-out.
- The CM/broker will transfer securities from its CM Settlement account to the accounts of the buyer.
- If the buying client is a sub-broker, such sub-broker will transfer securities to the final client using the off-market route.

Direct Delivery by Clearing Corporation to Client Account

Direct delivery of securities to the clients can also be effected by the CC, subject to completion of necessary procedures.

Inter-Settlement Transfers

In a clearing member account, the securities are always kept in a bucket of specific market type and settlement number. The clearing member may have to move securities from one bucket with a different market type-settlement number combination to another bucket from where pay-in is to be effected. To effect this movement a clearing member can give an instruction to move securities from one settlement to another settlement which is called 'inter-settlement' transfer.

Tracking of securities received for pay-in

A CM is required to track the securities, which it has received for pay-in. A CM can obtain such information from the following sources:

(1) *Its clients*: CM may contact selling clients to inquire whether they have delivered securities.
(2) *Its DP*: CM may contact its DP to find out the deliveries received into its CM settlement account.
(3) *Internet* - using facilities provided by the depositories such as IDeAS of NSDL and **e***asi*[36] and e*asiest*[37]of CDSL

Automatic Delivery-out

(1) In NSDL, delivery-out instructions for moving securities from CM Pool Account to CM Delivery Account can be generated automatically by the respective Clearing Corporations based on the net delivery obligations of its Clearing Members. The Clearing Corporation can generate auto delivery obligations (Dos) on behalf of those CMs who have authorised it in this regard. The auto DOs will be generated around the time of download of the delivery obligations to the Clearing Members. Such CMs will not be required to give delivery-out instruction forms to the Participants for Pay-in to the CC in respect of the automatically generated DOs. The Clearing Members can know the Auto DOs either by way of downloads

[36]CDSL offers Electronic Access to Securities Information (easi) which provides real time information to the CMs of their holdings in their demat account. It also provides status of instructions, details of past transactions and enables users to take a print out of their statement of account. It also offers a useful facility of daily valuation of the stocks held in the demat account and aggregate value of the portfolio.

[37]CDSL also offers Electronic Access to Securities Information and Execution of Secured Transaction (**e***asi***est**) which is an internet facility which permits BOs/CMs to submit debit/credit transaction instructions to effect off-market, on-market, inter-depository and early pay-in of transactions, freeze/unfreeze and pledge, unpledged and confiscation.

from the Clearing Corporation or through the Auto DO Report from the DPs or from facility on Internet provided by the depositories.

(2) Auto DOs will not be generated in the following cases and the Clearing Members will have to give Delivery-out Instruction forms to their Participants as usual:

a. Irreversible Delivery-out (IDO) - Auto DOs will not be generated for IDOs required to be given for the purpose of margin payment / exemption, etc.

i. In case IDO is given before generation of Auto DO, Clearing Members will have to ensure that an instruction is given to the Participant subsequently for cancellation of the corresponding Auto DO alongwith Delivery-out Instruction form for the balance quantity.

ii. In case IDO is given after generation of Auto DO, Clearing Members will have to ensure that the Auto DO is first cancelled before execution of the IDO. Further, a Delivery-out Instruction form for the balance quantity should also be given to the Participant.

b. Shifting of CM Settlement Account from one Participant to another Participant Auto DOs will be generated only in respect of one CM Settlement Account i.e., the CM Settlement Account which is designated for receiving pay-out as of the date of generation of Auto DOs. The Clearing Member must carefully monitor the delivery instructions for Pay-in as the securities might be lying during the shifting process in both the CM Settlement Accounts. However, this is applicable only with respect to NSDL.

(3) Both in NSDL and CDSL, there are options of early pay-in, normal pay-in and auto pay-in.

Early pay-in facility is used to avail margin exemptions and other applicable benefits including Buy-back and Tender Offer transfers. The CC maintains separate early pay-in accounts for each CM where the securities for early pay-in have to be delivered. For availing margin exemption, the CM / BO can give early pay-in instructions to DP from one day prior to the day of trading upto the pay-in day or any such time as may be specified by the stock exchanges. On receipt of instructions the DP verifies the same and enters the early pay-in instruction in the NSDL/CDSL system and thereafter the securities will be transferred from the concerned BO / CM account to the early pay-in account. The execution of early pay-in will take place only if adequate balance is available with the CM / BO account in the respective Depository. The BO may also opt to use the Block Mechanism referred earlier. It may be noted that in case of Buyback and Tender Offer transactions transfers from the BO account are permitted only to the respective CMs early pay-in account through early pay-in mechanism.

Normal pay-in facility can be used by a CM [applicable only in case of BSE CMs, set up of normal pay-in. Instructions from non-BSE CM accounts are not allowed] or the seller BO to deliver securities to the CC of the stock exchange by giving normal pay-in instruction to the DP. These

normal pay-in instructions can be given any time from the "T" day to the pay-in day till the pay-in time, even if no balance is available in the account.

- In case of BSE Pay-in, at the time of pay-in, CDSL earmarks the balance in the accounts for which the normal pay-in instructions has been entered by the DP, to the extent of quantity specified (or part) in the normal pay-in instruction. The accounts of the CM / BO are accordingly debited during pay-out time.
- In case of non-BSE pay-in at the time of pay-in, balance in the BO account for which the normal pay-in instructions have been entered by the DPs will be debited, to the extent of quantity entered in normal pay-in instructions (or part) and will be credited to the respective CM accounts. The pay-in of the securities would then be taken from the CMs settlement account.

Auto pay-in

- A facility is available to BSE-CMs on written request to CC (i.e. ICCL/NSCCL). By using this option, the CM will not be required to give any pay-in instructions to his DP and the securities will be automatically considered for pay-in. The details of auto pay-in can be viewed on the CDSL system from T+1 day afternoon, after the auto pay-in instruction are uploaded by CC. At the designated pay-in time, the securities for which auto pay-in instructions have been generated are earmarked in the designated CM account and considered automatically by the CC for pay-in. Debit of securities are done at the time of pay-out.
- A facility is also available to NSE CMs on written request to CC (i.e. NSCCL). CMs who have availed this option, securities for pay-in will be reported using following logic
    - ✓ If early pay-in quantity is more than Auto DO, no quantity will be debited from CM's account
    - ✓ If early pay-in quantity is less than Auto DO, quantity will be debited to the extent difference between Auto DO and early pay-in
    - ✓ In case of no early pay-in but Auto DO is generated, quantity will be debited to the extent Auto DO quantity
    - ✓ In case where no Auto DO is generated entire quantity available in CM's settlement pocket will be debited

The details of auto pay-in can be viewed on the CDSL system from T+1 afternoon, after the auto pay-in instructions are uploaded by CC. At the designated pay-in time, the securities for which auto pay-in instructions have been generated quantity will be debited from the CM account as per the aforesaid logic and will be credited to the CC account

- For trades done on exchanges, other than BSE, the auto pay-in is the default option, where auto pay-in instructions are not generated by the CC. At the designated pay-in time, the securities that are available in CM's account under the respective settlement pocket are automatically considered for pay-in.

(4) Clearing Members will be required to give Inter-settlement Instructions to the Participants for securities lying within a same CM account but in different settlement pocket.

(5) Participants can get a separate report from the DP system for Auto DOs, normal pay-in instructions and early pay-in instructions.

CM Settlement to CM Settlement Instructions / CM Pool to CM Pool Account transfer

The CM may give instructions to its DP to debit its settlement / Pool account and credit the settlement account of another CM in a prescribed format. The CM may give receipt instructions to its DP for crediting its settlement/ Pool account from settlement / Pool account of another CM in the format laid down. Alternatively, a CM may give standing instruction to its participant to credit its settlement/ Pool account. The DP shall ensure that the instruction form is complete and the signature of the CM is valid. The DP shall execute the instructions of the CM to debit/credit the settlement account of the CM.

Inter-depository Transfer

Transfer of securities from an account in one depository to an account in another depository is termed as an inter-depository transfer.

- As per SEBI (Depositories and Participants) Regulations, 2018, both the depositories must be inter-connected to enable inter-depository transfers.
- It can be done only for securities that are available for dematerialisation on both the depositories.
- The account in the depository can be either a clearing member account or a beneficiary account.
- For debiting the clearing member account or the beneficiary account with one depository, the form for "Inter-depository delivery instruction" is required to be submitted by the clearing member/beneficial owner to its DP.
- For crediting the clearing account or the beneficiary account, the standing instruction given for automatically crediting the account is applicable. In case the standing instructions are not given, then the form for "Inter-Depository Receipt Instruction" is required to be submitted by the clearing member/beneficial owner to its DP.
- Inter-Depository Transfer instructions for the day are exchanged online between the two depositories.

• The deadline time for DPs to verify & release Inter Depository Transfer delivery/ receipt instructions is 9.30 p.m. on weekdays and 2.30 p.m. on Saturdays. Effective December 21, 2020 in an inter depository transfer from NSDL account to CDSL account, where receiving CDSL account is a CM account and securities credited under appropriate settlement id can only be considered against the CM's settlement pay-in obligation.

8.4 Interoperability

Under Interoperability, a Clearing Member (CM) may choose to have a preferred Clearing Corporations (CC). The trades executed on multiple exchanges can be consolidated into a single CC and there will not be a strict one-to-one association of exchanges and CCs.

The interoperable CCs appoints a Delivery Versus Payment (DvP) agent, who will be responsible for settlement of obligations. After completion of pay-in from CMs, interoperable CCs will provide payout securities to the Pool Account of DvP Agent for onward transfer to the receiving CC's settlement account and thereafter receive securities from the other DvP agent. DvP Agent will maintain exchange wise separate pool account with each depository.

Settlement Process:

- Once the pay-in process is completed at CC, CCs will submit a pay-out file with the respective Pool Accounts of DvP agent to the extent of the interoperable securities (i.e. securities receivable by CM of other CCs).

- DVP agent will further transfer the securities that are received in DvP Agent Pool Account to the respective settlement accounts of the CCs (depending upon the securities receivable by a CM of the respective CC).

- At the same time CCs will also receive payout in their respective settlement accounts from other Pool Accounts of DvP Agent.

Once the intra-settlement transfer between all the CCs is completed, CC's will process a pay-out to credit the securities in the client's account or pool account of the TMs/CMs.

8.5 Procedure for Subscription and Redemption of Mutual Fund Units

The beneficial owners can use the same DIS book for Securities as well as Mutual Fund Units.

Subscription (Purchase) of Mutual Fund units through Stock Exchange

Mutual Fund units purchased by an investor through the CM is routed through the settlement cycle of the stock exchange. Each Asset Management Company (AMC) will open (a) Principal Account & Pool Account (for BSE), (b) Clearing Member Account (for NSE and other Stock Exchanges), and (c) AMC Beneficiary Account for settlement of Mutual Fund Units with any CDSL DP based on the CM ID allocated by the respective stock exchanges i.e. BSE, NSE etc.

Purchase orders for MF units is entered on the stock exchange order entry platform by the eligible CMs on behalf of their investors. After the order entry deadline, order file shall be sent to AMC/RTA for validation. For valid orders, AMC/RTA shall submit Corporate Action file to CDSL for the allotment of MF units in AMC beneficiary accounts. AMC shall submit DIS in the form of "Normal Pay-in" from AMC beneficiary account by mentioning the CM ID and Settlement ID along with the other relevant details for pay-in processing. On Payout, MF units shall be credited to the respective Buyer's Clearing Member's (CM's) Pool account by way of a settlement cycle mechanism. Subsequently, CM shall transfer the said MF units to the respective BO's demat account.

Redemption (Repurchase) of Mutual Fund units through Stock Exchange

In case of Redemption [i.e. Repurchase] of MF units, the Investor shall place an order through eligible Clearing Member (CM) on Stock Exchange Order Entry platform. On successful order entry, Investor / BO shall transfer the units for pay-in by submitting the DIS to his DP by mentioning the Settlement ID and Settlement type along with the other relevant details. Mutual Fund units shall be debited from BO account and credited to the CC/CH house account. Early Pay-in facility shall not be applicable for settlement of Mutual Fund units. Part balance / insufficient balance of Mutual Fund units shall not be considered for redemption / repurchase. Mutual Fund units shall be debited from CC/CH house account and credited to the AMC beneficiary accounts from where the units shall be redeemed subsequently.

Repurchase / Redemption of Mutual Fund units through Depository Participant

BO can also redeem or offer for repurchase the MF units that are available in electronic form in his demat account directly through the DP without going through the stock exchange mechanism. SEBI stipulated AMFI /NISM certification and code of conduct prescribed by SEBI for intermediaries of Mutual Fund will be applicable for the DPs who accept such requests directly from the BOs. The DPs processing the Repurchase/ Redemption request shall send a copy of the AMFI/ NISM certificate to CDSL for updation.BO shall submit a Repurchase / Redemption Request Form directly to the DP. The DP shall ensure that the bank details are entered in the CDSL system. If bank details are not entered, then the repurchase / redemption request may get rejected.

If BO submits the Repurchase / Redemption Request Form for the entire holding in his demat account, the DP shall set up the Repurchase / Redemption request with the quantity option as 'ALL' in the system without requirement of entering any quantity in the Quantity field. In such case, AMC / RTA shall confirm / reject the entire balance [which are available at the time of confirmation] / partial balance in the respective folio with them.

If BO submits Repurchase / Redemption Request Form by mentioning the Quantity [Full or Partial] then the DP shall set up the Repurchase / Redemption Request with the quantity as mentioned in form. In such case, Issuer / RTA may confirm the maximum balance up to the setup quantity / partial balance with respect to setup quantity in the respective folio with them reject the balance up to the setup quantity / partial balance with respect to setup quantity in the respective folio with them.

If BO submits Repurchase / redemption Request form by mentioning the 'Amount'. RTA may confirm the units upto or equivalent to the amount. In the case of Repurchase / Redemption confirmation, the payment is made to the BO by the AMC/RTA in lieu of MF units held in electronic form. Modification is not allowed for Repurchase / Redemption.

8.6 Handling of Clients' Securities by Trading Members/Clearing Members settlement

In order to protect clients' funds and securities, the Securities Contracts (Regulation) Act, 1956 and SEBI (Stock-Brokers) Regulations, 1992 specifies that the stock broker shall segregate securities or moneys of the client and shall not use it for self or for its other clients.

All TM/CM are required to transfer the clients securities received in pay-out to clients demat account within one working day. In case the client does not pay for such securities received in pay-out, then such securities shall be transferred by TM/CM to respective client's demat account followed by creation of an auto-pledge (i.e., without any specific instruction from the client) with the reason "unpaid", in favor of a separate account titled –"client unpaid securities pledgee account", which shall be opened by TM/CM. After the creation of pledge, a communication (email / SMS) shall be sent by TM/CM informing the client about their funds obligation and also about the right of TM/CM to sell such securities in event of failure by client to fulfill their obligation.

If the client fulfills its funds obligation within five trading days after the pay-out, TM/CM can release the pledge (unpledge) so that the securities are available to the client as free balance. If the client does not fulfill its funds obligation, TM / CM shall dispose off (sell) such unpaid securities in the market within five trading days after the pay-out. TM/CM, before disposing/selling the securities, shall give an intimation (email / SMS) to the client, one trading day before such sale. The unpaid securities shall be sold in the market with the Unique Client

Code (UCC) of the respective client. Profit/loss on the sale transaction of the unpaid securities, if any, shall be transferred to/adjusted from the respective client account. The unpaid securities shall be sold in the market with the Unique Client Code (UCC) of the respective client. Profit/loss on the sale transaction of the unpaid securities, if any, shall be transferred to/adjusted from the respective client account.

TM / CM shall invoke the pledge only against the delivery obligation of the client. On invocation, the securities shall be blocked for early pay-in in the client's demat account with a trail being maintained in the TM/CM's client unpaid securities pledgee account. Once such securities are blocked for early pay-in in client's demat account, the depositories verify the block details against the client level obligation.

In case, such pledge is neither invoked nor released within seven trading days after the pay-out, the pledge on securities is auto released and the securities are available to the client as free balance without encumbrance. Such unpaid securities pledged in client's account are not considered for the margin obligations of the client.

8.7 Government of India notification regarding the Indian Stamp (Collection of Stamp-Duty through Stock Exchanges, Clearing Corporations and Depositories) Rules, 2019.

In order to facilitate ease of doing business and to bring in uniformity and affordability of the stamp duty on securities across States and thereby build a pan India securities market, the Central Government has made the amendments to the Indian Stamp Act, 1899. The amendment proposes to create the legal and institutional mechanism to enable states to collect stamp duty on securities market instruments at one place by one agency (through the Stock Exchanges or Clearing Corporations authorised by the stock exchange or by the Depositories) on one Instrument and subsequent disbursement of the duty collected to the respective states.

In this regard, Government of India (GOI) notified the Indian Stamp (Collection of Stamp-Duty through Stock Exchanges, Clearing Corporations and Depositories) Rules, 2019 which came into force on July 1, 2020.

Stamp-duty leviable under the Indian Stamp Act is to be collected before execution of off-market transfers involving transfer of securities in the depository system. It shall be collected from the transferor/pledgee itself or through their DPs before executing off-market/pledge invocation transactions in the depository system. The stamp duty will be calculated and collected on the 'Consideration Amount' as captured in the depository system based on the consideration details mentioned by the transferor on DIS. The 'Consideration Amount' can be captured for all types of off-market transfers including inter depository transfers. However, in case of NSDL, where no

consideration is involved in off market transfers, an option to select the flag 'Without Consideration has also been provided.

The rate at which the stamp duty will be calculated will be governed by the provisions of Schedule I of the Principal Act. Currently as per the Indian Stamp Act, three categories have been defined for the securities i.e. 'Debenture', 'Government Securities' and 'Securities other than Debenture'. Stamp duty is not applicable on Government Securities.

In accordance with the regulatory communication, the Depository shall not be collecting stamp duty for State of Sikkim.

Review Questions

Questions to assess your learning:

1. Transfer due to a transaction done on a person to person basis is called _____ transaction.

(a) Off Market
(b) Market
(c) Sub-Market
(d) Intra-Market

2. If adequate balances do not exist in the account, then delivery instruction will wait for adequate balances till the end of the execution day. State whether True or False?

(a) True
(b) False

3. If a broker gives _____ of his clients to Clearing Corporation, then pay-out securities are directly credited in the clients account by the Clearing Corporation.

(a) Names and PAN
(b) Pay-out breakup
(c) Identities
(d) PAN and DP IDs

4. Who is required to give the Inter-settlement Instructions to the Participants for securities lying within a same CM account but in different settlement a pocket?

(a) Exchange
(b) Clearing House
(c) Depository
(d) Clearing Member

Chapter 9: Special Services – Pledge & Hypothecation[38]

Learning Objectives:

After studying this chapter, you should know about the:

- Concept of pledging and hypothecation of securities
- Procedure for pledging and hypothecation of securities
- Corporate Benefits for pledged/hypothecated securities

9.1 Introduction

The creation of pledge and hypothecation against securities which are held in demat mode is permitted under section 12 of the Depositories Act, 1996. Securities (free balances / lock-in balance) held in a depository account can be pledged or hypothecated against a loan, credit, or such other facility availed by the beneficial owner of such securities. For this purpose, both the parties to the agreement, i.e., the pledgor and the pledgee must have a beneficial account with the same depository as inter-depository pledge is presently not permitted. However, both parties need not have their depository account with the same DP. The nature of control on the securities offered as collateral determines whether the transaction is a pledge or hypothecation. If the lender (pledgee) has unilateral right (without reference to borrower) to appropriate the securities to his account and if the borrower (pledgor) defaults or otherwise, the transaction is called a pledge. If the lender needs concurrence of the borrower (pledgor) for appropriating securities to his account, the transaction is called hypothecation. Further lender [pledgee BO] has the facility to give Standing Instructions for accepting pledge instructions in is favour, at the time of opening of the demat account or at a later date i.e. the pledge requests initiated by the borrower (pledgor) will be automatically accepted in lenders (pledgee) favour.

9.2 Procedure for Pledge/Hypothecation

The pledgor initiates the creation of pledge/hypothecation through its DP and the pledgee instructs its DP to confirm the creation of the pledge. The pledge/hypothecation so created can either be closed on repayment of loan or invoked if there is a default. After the pledgor has repaid the loan to the pledgee, the pledgor initiates the closure of pledge/hypothecation through its DP and the pledgee instructs its DP to confirm the closure of the pledge/hypothecation. If the

[38] It may be noted, that the term 'hypothecation' is used only in NSDL.

pledgor defaults in discharging his obligation under the agreement, the pledgee may invoke the pledge/ hypothecation. This has to be done after taking the necessary steps under the terms of the agreement with the pledgor and as stated in the Bye-Laws of the depository and rules and regulations framed by SEBI.

The following steps are involved in the creation of pledge/hypothecation:

9.2.1 Creation of Pledge/Hypothecation by Pledgor

A beneficial owner may contract a loan against the securities owned by him. He may borrow from a bank or any other person. A pledge transaction needs an identification which may be an agreement number. The borrower is called a pledgor and the lender is called a pledgee. There can be any number of pledge/hypothecation transactions between the same set of pledgees and pledgors. Each of these transactions has to be identified separately by a unique system generated number ("pledge sequence number") in the DP system and a separate set of instructions have to be given against each of these transactions. Multiple pledge instructions can be executed on the basis of a single agreement. In such cases, the same agreement number should be quoted for all the pledge instructions. (Entering the agreement number is optional in CDSL system). The DP of the pledgor initiates a pledge/hypothecation on request received from the pledgor in the prescribed form. The pledgor submits the request form containing all details like the details of securities to be pledged, the agreement number, closure date of the pledge/hypothecation (this date is indicative of the duration of pledge/hypothecation), pledgee's details, etc. The DP verifies the form for completeness and validity and ensures that the securities to be pledged exist in the pledgor's account. If it is not found in order, it is returned to the pledgor for correction. If the form is complete in all respects, the DP accepts it for processing and issues an acknowledgement to the pledgor.

The DP then enters the details of the request in DP system as a pledge/hypothecation. On entering the details, a pledge sequence number for the request is generated. The DP then verifies it and confirms the requests. Securities are then debited from the free or locked-in balances and credited as pledge setup balance in the demat account of the pledgor. The DP intimates to the pledgor, the "pledge sequence number".

Pledgor BO also has the facility to setup the pledge request even in case of insufficient / nil balance in the Pledgor BO account. The Pledgor BO shall have the facility to set up pledge request with future date as execution date. If the execution date is not mentioned in the Pledge Request Form, then business date on which the Pledgor DP verifies the pledge will be taken as execution date.

Further, the BO can pledge the securities as a pledgor and pledgee BO can accept the pledge as a pledgee if both the BOs are registered for CDSLs easiest facility, as well as pledgee can execute the confiscation if the pledgor fails to fulfill the obligation. BO also has the facility to initiate the pledge for the purpose of Margin from their easiest login.

CM also has the facility to accept the Margin pledge from its easiest login as a pledgee as well CM has the facility to repledge the securities to the CC as a pledger. (As already discussed under section 5.4).

At NSDL, the said instruction can also be submitted by the client whose depository account is registered for e-Token based facility for accessing SPEED-e facility of NSDL.

9.2.2 Procedure for Confirmation of Creation of Pledge/Hypothecation by Pledgee

Once a pledge/hypothecation request has been created and verified, the pledgor submits the duly stamped and signed PRF to the pledgee alongwith the letter generated confirming the pledge set-up. The details of the pledge/hypothecation are also electronically communicated to DP system of pledgee's DP for confirmation. The pledge/ hypothecation request is displayed at DP system of pledgee's DP.

In case of CDSL, if the pledgee DP has not obtained standing instruction from the pledgee BO to confirm the pledge set-up, the pledgee BO shall submit duly signed PRF to its DP with PSN.

The DP also compares the details on the form with the details shown by DP system against the pledge/hypothecation number. On being satisfied, the DP executes the order for accepting/ rejecting the pledge/ hypothecation request in DP system. In the case of rejection by the pledgee, the DP enters reason for the rejection in DP system as specified in the form. Confirmation of the acceptance/ rejection of pledge/hypothecation are electronically communicated to DP system of the pledgor's DP. (Refer figure 9.1).

At NSDL, the said instruction can also be submitted by the client whose depository account is registered for e-Token based facility for accessing SPEED-e direct facility of NSDL.

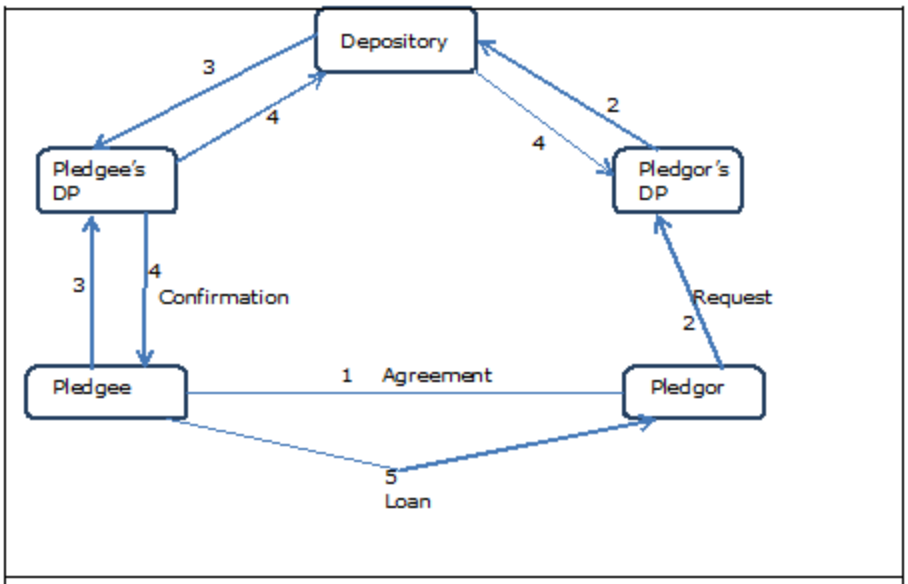
Acceptance of the creation of pledge/ hypothecation appears in DP system of the pledgor's DP and pledgee's DP as a status change. Status of the pledge/hypothecation instruction will change to "Accepted-Verified". DP of the pledgee must confirm the creation of pledge/hypothecation before the date of expiry of pledge/ hypothecation mentioned in the request form for creation of pledge submitted by the pledgor (not applicable in case of NSDL). The reason for rejection is displayed in DP system of the pledgor's DP. The pledgor's DP cannot cancel the

pledge/hypothecation order after confirmation of creation of the pledge/hypothecation by the pledgee. Once the pledge is confirmed, statement of holding will show the quantity of pledged securities separately as "pledged balance".

A pledgor (borrower) and pledgee (lender) may have their accounts with the same DP or different DPs. The procedure described does not change. It remains the same irrespective of whether or not they have accounts with different DPs. Even if both have their accounts with the same DP, the procedure of receiving the pledge confirmation from the lender has to be followed. The pledge will get credited only after the confirmation advice is entered in the DP system.

To eliminate the manual process of pledge confirmation and to facilitate DPs of Pledgee to automatically confirm the pledge request in NSDL system, a flag namely “Standing Instruction Indicator for Auto Pledge Confirmation‟ is incorporated in NSDL system. Accordingly, the pledge request initiated by the Pledgor in favour of Pledgee client where “Standing Instruction Indicator for Auto Pledge Confirmation‟ flag is enabled in the NSDL system, the pledge instruction will automatically get Confirmed and the status will be updated as “Pledged‟ without the need to submit Pledge Request Form (PRF) by the Pledgee for confirmation of pledge request.

Figure 9.1: Pledging of Demat Shares



Steps:

1. Agreement is signed between the pledgor and the pledge outside the depository system.
2. Pledgor gives a pledge request to his DP who entersit in the system. Securities are transferred from 'Free balance' to 'Pledge setup balance' in the pledgor's account. The pledge request is available to the pledgee DP through depository system.
3. Pledgee DP gives a pledge confirmation request to his DP who enters it on the depository system. Status of the pledge request changes to 'Accepted-Verified'. Balance moves from 'Pledge setup balance' to 'Pledge balance'.
4. Pledgee gives a pledge confirmation to his DP who enters it in the system. Status of pledge instruction is changed to 'pledged'.
5. Loan is given by pledge to pledgor outside the Depository system.

9.2.3 Closure (Unpledge) of a Pledge/Hypothecation by Pledgor

The pledgor can request for un-pledging / closure of pledge/hypothecation after the performance of the underlying agreement. The pledgor submits an instruction in the prescribed form to its DP to initiate the un-pledge / closure of pledge/hypothecation. The DP, upon receiving such request, verifies the form for its completeness and validity and, if not found in order, returns it to the pledgor for rectification. If it is found to be in order, the DP accepts it for processing and issues an acknowledgement to the pledgor. The DP also compares the details given in the form with those displayed at DP system against the pledge/hypothecation instruction number. The DP enters the un-pledge / closure request details in DP system against the pledge/hypothecation instruction number as per the instructions given in the form.

The details of the pledge/hypothecation un-pledge / closure request are communicated electronically through depository system to the DP system of pledgee's DP for confirmation. On receiving such intimation, the pledgee's DP is required to furnish the details of the un-pledge/ hypothecation closure requests received for confirmation to the pledgee. The pledgee then

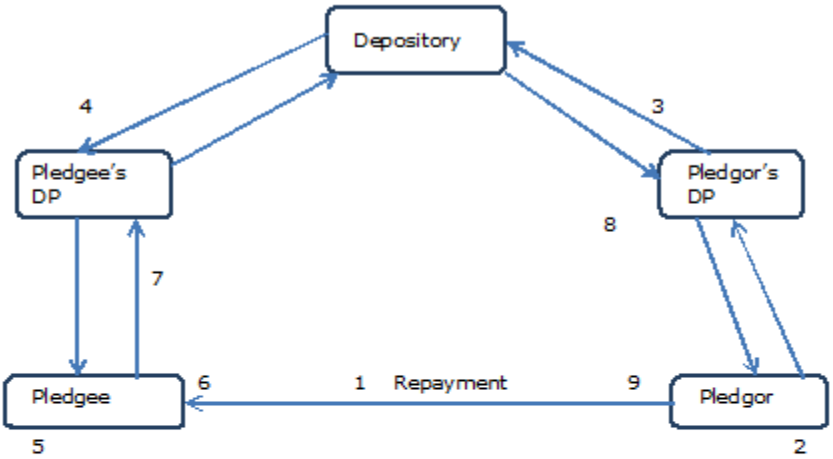
submits his acceptance/rejection of the un-pledge / closure request in the prescribed form. The DP verifies the form for its completeness and validity and, if not found to be in order, returns it to the pledgee for rectification. If it is in order, the DP accepts it for processing and issues an acknowledgement to the pledgee. The DP also compares the details on the form with those displayed at DP system against the pledge/hypothecation instruction number. Figure 9.2 shows the un-pledge / closure procedure.

The DP executes the order accepting/rejecting the un-pledge/hypothecation closure request in DP system as per the instructions given in the form. In case of rejection by the pledgee, the DP enters the reason for rejection in DP system as specified in the form. The acceptance/rejection of un-pledge/hypothecation closure confirmation is electronically communicated to DP system of the pledgor's DP. The securities accepted for un-pledge/closure gets debited from the pledged balances of the pledgor and credited to its free/locked-in balances. In case of rejection by the pledgee, the securities continue to remain as pledged balances in the pledgor's account. The reasons for rejection are displayed in DP system of the pledgor's DP. Some of the reasons for rejection are as follows:

- Un-pledge / Closure date not accepted
- Pledged quantity not accepted
- ISIN not accepted
- Security details not accepted
- Market value of pledged ISINs insufficient
- ISIN delisted from trading
- POA not received from all holders
- Holders not acceptable to the pledgee
- Agreement number differs from that on the agreement
- Others

The rejection reasons are not present in CDSL system. If the pledgee DP is rejecting the unpledge request, he can enter the reason for same in a remark field provided for this purpose.

Figure 9.2: Pledge closure procedure



Steps:

1. Pledgor repays the loan to pledgee.
2. Pledgor gives a pledge closure (unpledge) request to his DP.
3. Pledgor's DP forwards the request to the depository.
4. The depository forwards the pledge closure (unpledge) request to pledgee's DP.
5. Pledgee's DP intimates the Pledgee.
6. Pledgee gives pledge closure (unpledged) confirmation form to his DP.
7. Pledgee's DP closes the pledge and pledge closure (unpledged) is forwarded to the depository. Securities are moved from 'pledge' balances to free balances in the pledgor's account.
8. The depository forwards the conformation for pledge closure (unpledged) to pledgor's DP.
9. Pledgor's DP intimates the pledgor.

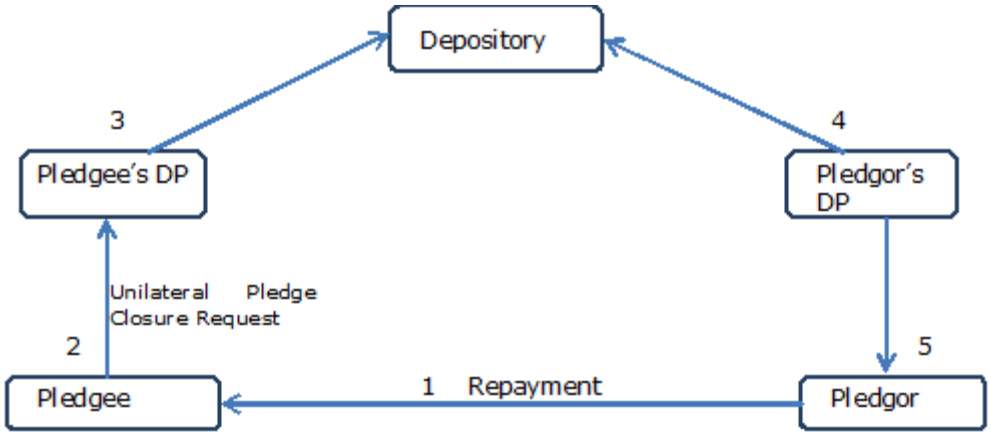
In CDSL system, Pledge closure is referred as unpledge.

9.2.4 Unilateral Closure (Unpledge) of Pledge

The facility for unilateral closure (Unpledge) of Pledge by the Pledgee is also provided by the depositories. In this case, the pledgee submits an instruction in the prescribed form to its DP to initiate unilateral closure of pledge/hypothecation.

The process remains the same as mentioned under head (section 9.2.3), Un-pledge/Closure of a Pledge/Hypothecation by Pledgor. However, no action (confirmation / rejection) is required to be taken by the pledgor and/or pledgor's DP. Figure 9.3 shows the process flow for universal (unpledged) closure.

Figure 9.3: Unilateral Pledge Closure Procedure



Steps:

1. Pledgor repays the loan to pledge.
2. Pledgee gives a unilateral pledge closure (unpledged) request to his DP.
3. Pledgee's DP forwards the request to the depository. The pledge is then closed (unpledged).
4. The depository informs the pledgor's DP. The securities are moved from the 'pledged' balances to free balances in the pledgor's account.
5. Pledgor's DP intimates the pledgor.

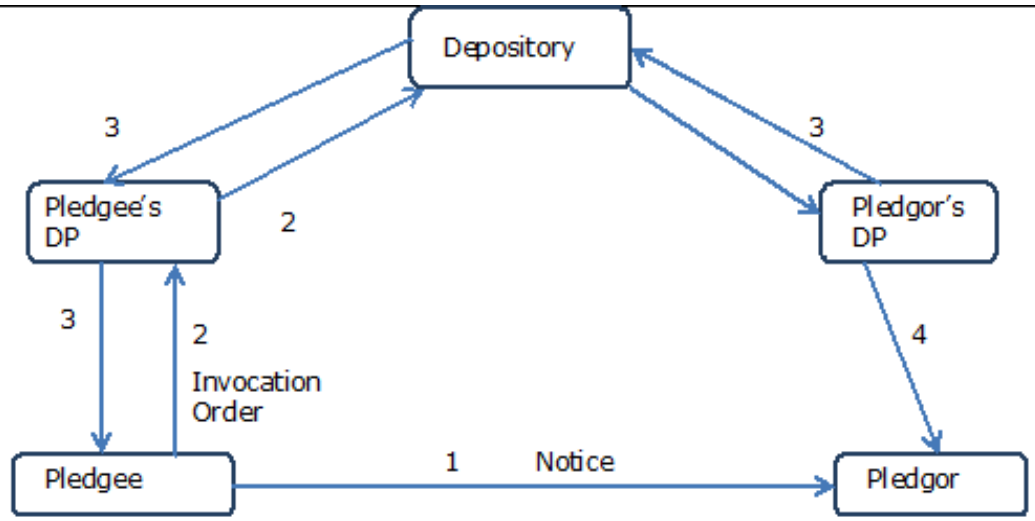
9.2.5 Invocation of Pledge by Pledgee

If the pledgor fails to discharge his obligations under the agreement of pledge or for any other reason, the pledgee may invoke the pledge. He can then claim the beneficial ownership of the concerned securities after taking the necessary steps in terms of the pledge agreement, Bye-Laws of the depository and SEBI regulations. In such a case, the pledgee fills up the Invocation Request Form (IRF) to his DP for invoking the pledge. The DP verifies the form for its completeness and validity and if not found in order returns the same to the pledgee for rectification. If it is in order, the DP accepts it for processing and issues an acknowledgement to the pledgee. The DP also compares the details on the form with those on the DP system displayed against the pledge number.

Figure 9.4 shows the process flow for pledge invocation. The DP enters (maker) the invocation request details in DP system against the pledge instruction number as per the instructions given in the form and verifies (checker) the details. On verification by pledgee, the securities are transferred from the 'pledged balance' of the pledgor's beneficial owner account to the 'free balance' of pledgee's beneficial owner account. It may be noted that in case of pledge, no confirmation is required in DP system of the pledgor's DP for transferring securities from pledgor's (borrower's) account to pledgee's (lender's) account. Further if the pledge is for lock-in securities, then invocation request cannot be setup till the lock-in period is over.

It is important to note that locked-in securities cannot be invoked before the lock-in release date. In case of hypothecation, the pledgor instructs its DP to confirm the invocation of the hypothecation in DP system.

Figure 9.4: Pledge Invocation



Steps:

1. On repayment default, pledgee send an invocation notice to pledgor.
2. Pledgee submits a pledge invocation request to DP. DP forwards the request to the pledgor's DP through the depository system.
3. Securities move automatically from pledgor's account to pledgee's account through the depository system.
4. Pledgor is informed of the movement of the securities by his DP.

Capturing consideration amount in case of Pledge Invocation

As already discussed in the previous chapter, in terms of Rule 5 (7) of the Government of India notification regarding the Indian Stamp (Collection of Stamp-Duty through Stock Exchanges, Clearing Corporations and Depositories) Rules, 2019, in the case of transfer of securities pursuant to invocation of pledge, duty shall be collected from the pledgee on the market value of the securities. Therefore, Participants are requested to take note that the consideration is to be obtained in case of "pledge invocation" from the pledgee along with the Pledge/Hypothecation Form.

9.2.6 Invocation of Hypothecation (Not applicable in CDSL)

If the borrower fails to discharge his obligations under the agreement of hypothecation or for any other reason, the lender may invoke the hypothecation. He can then claim the beneficial ownership of the concerned securities after taking the necessary steps in terms of the hypothecation agreement, Bye-Laws of the depository and SEBI regulations. In such a case, the lender submits a request in the prescribed form to his DP for invoking the hypothecation. The DP verifies the form for its completeness and validity and, if not found in order, returns it for rectification. If it is in order, the DP accepts it for processing and issues an acknowledgement to the lender. The DP also compares the details on the form with those on the DP system displayed against the hypothecation instruction number.

On receiving the instructions from the borrower, the DP executes the order for accepting/rejecting the invocation request in the DP system as per the instructions given in the form. In case of rejection by the borrower, the DP enters the reason for rejection in DP system as specified in the form. The acceptance/rejection of invocation confirmation is communicated to DP system of the lender's DP. In case of rejection by the borrower, the securities will continue to remain as pledged balances in the borrower's account and the reasons for rejection are displayed in DP system of the lender's DP.

9.2.7 Corporate Benefits for Pledged/Hypothecated Securities

Ownership of the pledged/hypothecated securities remains with the pledgor (borrower) until the pledge is invoked. Hence, all corporate benefits - cash and non-cash - like dividends, bonus, rights etc., will accrue to the borrower. Dividends will be given to the borrower in the usual manner and bonus shares will be credited to his account as pledged balances. The securities arising out of corporate actions like share splits or consolidation or exchange under a merger/acquisition scheme are credited to the account of the pledgor with pledge marked. The checklist for processing a pledging and hypothecation request by a depository participant is shown in Box 9.1.

Box 9.1: Checklist for pledge/hypothecation

While processing a pledge/hypothecation request, the DP should take care with regard to the following steps/points:

1. Ensure that the instruction form is submitted in duplicate.
3. Pledgor DP and Pledgee DP each shall create at least two users to implement the Maker-checker feature. Ensure that all compulsory fields in the instruction form are entered.
4. Ensure that request for confirmation of pledge is given before the closure date mentioned in the instruction form (not applicable in case of NSDL).

5. The DP shall maintain copies of all Pledge Request Forms (PRF), Unpledge Request Forms (URF) & Invocation Request Forms (IRF) for a minimum period of 5 years or any such period informed by SEBI / NSDL/ CDSL from time to time.

9.3 Recording of Non Disposal Undertaking (NDU) in the Depository System

The depository system provides a transparent mechanism for recording pledge transactions entered between lenders and borrowers.

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.

In order to enable the shareholders to record the NDUs in the depository system, it has been decided to permit the depositories to offer a system for capturing and recording the NDUs. DPs of Clients on whose securities, hold is created for NDU, shall be charged @ 0.01 percent of the value of securities upon creation of hold, subject to a minimum of Rs. 25.

SEBI vide its circular dated July 24, 2020 advised the Depositories to record all types of encumbrances, which are specified under Regulation 28(3) of SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011.[39]

Lien is the right of a creditor in possession of goods, securities or any other assets belonging to the debtor to retain them until the debt is repaid, provided that there is no contract express or implied, to the contrary. It is a right to retain possession of specific goods or securities or other movables of which the ownership vests in some other person and the possession can be retained till the owner discharges the debt or obligation to the possessor. It is a legal claim by one person on the property of another as security for payment of a debt.

[39] SEBI Circular Ref. No. SEBI/HO/MRD2/DDAP/CIR/P/2020/137 Dated July 24, 2020.

All other encumbrances to be treated as '*Other Encumbrances*' in CDSL system. Further PAN of the Ultimate Lender is required to be mentioned on the form. Also the NDU /Lien / encumbrance reason is compulsory.

9.4 Margin obligations to be given by way of Pledge/ Re-pledge in the Depository System[40]

SEBI vide circular dated February 25, 2020 had specified that margin obligations can be given by way of Pledge/Re-pledge in the Depository System. The provisions of the said circular came into effect from August 1, 2020. TM / CM were allowed to accept collateral from clients in the form of securities, only by way of 'margin pledge', created in the Depository system in accordance with Section 12 of the Depositories Act, 1996 read with Regulation 79 of the SEBI (Depositories and Participants) Regulations, 2018 and the relevant Bye Laws of the Depositories.

Transfer of securities to the demat account of the TM / CM for margin purposes (i.e. title transfer collateral arrangements) shall be prohibited. In case, a client has given a POA in favour of a TM / CM, such holding of POA shall not be considered as equivalent to the collection of margin by the TM / CM in respect of securities held in the demat account of the client. This provision came into effect from August 01, 2020.

Depositories were advised to provide a separate pledge type viz. 'margin pledge', for pledging client's securities as margin to the TM / CM in the Depositories System. The TM / CM is required to open a separate demat account for accepting such margin pledge, which shall be tagged as 'Client Securities Margin Pledge Account. Accordingly Trading Members (TM) / Clearing Members (CMs) can accept collateral from clients in the form of securities only by way of Margin Pledge (MP) created in the depository system. For the purpose of providing collateral in form of securities as margin, a client can margin pledge securities with TM, and TM can re-pledge the same with CM, and CM in turn can re-pledge the same to Clearing Corporation (CC). The complete trail of such re-pledge shall be reflected in the demat account of the pledger. The operational mechanism for margin pledge is provided in Annexure 3.

Further, the framework for utilisation of pledged clients' securities for exposure and margin is provided in Annexure 4

[40] Reference: SEBI/HO/MIRSD/DOP/CIR/P/2020/28 dated February 25, 2020, SEBI/HO/MIRSD/DOP/CIR/P/2020/88 dated May 25, 2020, SEBI/HO/MIRSD/DOP/CIR/P/2020/90 dated May 29, 2020 and SEBI/HO/MIRSD/DOP/CIR/P/2020/143 dated July 29, 2020

Review Questions

Questions to assess your learning:

1. If the lender needs concurrence of the borrower for appropriating securities to his account, the transaction is called _____?
   (a) Pledge
   (b) Hypothecation
   (c) Either of the above
   (d) None of the above

2. State whether the given statement is true or false: "For pledging and hypothecation of securities, the pledgee and the pledgor can have their account with DPs under the different depository".
   (a) True
   (b) **False**

3. When do we call that a Pledge transaction is completed?
   (a) When SEBI approves the proposal
   (b) When the depository gives its nod
   (c) When the confirmation advice is entered in the DP system
   (d) None of the above

4. Can a pledge be created for future date as the execution date? State Yes or No?
   (a) Yes
   (b) No

Chapter 10: Special Services – Public Offering / Corporate Actions

Learning Objectives:

After studying this chapter, you should know about:

- The concept of corporate actions
- Terminology related to corporate actions.
- Procedure for corporate actions with respect to the monetary and non-monetary benefits

10.1 Concept of Corporate Actions

Corporate actions are events, which affect the rights, obligations and/or interests of the beneficial owners of the securities held in a depository. The most common examples are payment of interest, dividend, bonus shares, rights, splits, merger, redemption, payment of call money, liquidation etc. For securities held in demat mode, the depository facilitates the execution of corporate actions. The depository Bye-Laws define corporate benefits to mean and include any action taken by the issuer relating to prescribing the dates for book closures, record dates, dates for redemption or maturity of security, dates of conversion of debentures, warrants, call-money dates and such other action from time to time.

Corporate actions can be categorised into two types:

- *Cash corporate actions* involve distribution of monetary benefits, e.g., dividend and interest etc. In case of cash corporate actions, depository merely provides information to the Issuer about the persons entitled to receive corporate benefits as on a cut-off date.

- N*on-cash corporate actions* involve distribution of benefits other than cash such as bonus issues, offer of shares on right basis, conversion of securities, etc. In case of non-cash corporate actions, depository may facilitate the distribution of corporate benefits. Presently the depositories in India facilitate the distribution of non-cash corporate benefits.

10.2 Important Terms

Since corporate actions affect the beneficial owners of the securities, it is important to determine the actual beneficial owner of the securities on the cut-off date announced by the issuer for a specific corporate action. Such cut-off date is called record date/ book closure.

Record Date: Corporate actions affect the holder of the securities. Thus, whenever any corporate action takes place it is necessary to determine the eligible BOs as of a particular date who are entitled to the corporate benefits. The issuer thus announces a cut-off date to determine the BOs of the securities as of that date. This date is referred to as the `Record Date'. The issuer/ RTA set up a corporate action specifying the record date in depository system. Depository system provides holding report i.e. list of BOs having holdings in the ISIN of the issuer as of end of the day of record date.

Book Closure Start Date / End Date: In certain cases, issuer may setup a corporate action specifying book closure start date and book closure end date. In such cases, the depository system generates holding report i.e. list of BOs having holdings in the ISIN of the issuer as of end of the day of one day prior to book closure start date.

10.3 Procedure for Corporate Actions

Whenever a corporate action is announced, the Issuer / its R&T Agent, informs the depository about the proposed corporate action. The information of the corporate actions is made available to the DPs through the depository system.

On receiving such information, DPs take the following steps to ensure that:

- the changes in tax status, bank details, change of address etc. in the beneficial owners' accounts are updated well in advance of the book closure/record date;
- all positions in the transit accounts[41], e.g., settlement accounts and intermediary accounts, are cleared and the balances lying therein are transferred to the relevant beneficiary accounts well in advance of the book closure/record date as per the instructions received from account holders.

On the relevant cut-off date announced for the corporate action, the depository provides the details of the holdings of the beneficial owners to the issuer or its R&T Agent. The details provided by the depository include the particulars of tax-status, if any of the beneficial owner and his bank account details. Securities balances lying in the accounts of the Clearing Members / Clearing

[41] CDSL does not have the concept of transit account.

Corporations / Intermediaries will be eligible to receive corporate benefits. In such cases, the Issuer or its RTAs will distribute the corporate benefits to the Clearing Members / Clearing Corporations / Intermediaries for onward distribution to the beneficial owners. The corporate benefits availed by Clearing Members / Clearing Corporations and intermediaries shall be held in trust on behalf of the beneficial owners.

10.3.1 Monetary Benefits

On the basis of the particulars of the holdings of beneficial owners received from the depositories on the cut-off date, the Issuer / its R&T Agent distribute dividend, interest and other monetary benefits directly to the beneficial owners.

Advancements in the field of electronic payment systems in the last decade have made available various other modes of electronic funds transfer viz. National Electronic Funds Transfer (NEFT), Real Time Gross Settlement (RTGS), etc. In view of such advancements, SEBI has vide its circular no. CIR/MRD/DP/10/2013 dated March 21, 2013 modified the framework as under:

(i) For making cash payments to the investors, companies whose securities are listed on the stock exchanges shall use, either directly or through their RTA& STA, any RBI (Reserve Bank of India) approved electronic mode of payment such as ECS [LECS (Local ECS) / RECS (Regional ECS) / NECS (National ECS)], NEFT, etc.

(ii) Further in order to enable usage of electronic payment instruments, companies whose securities are listed on the stock exchanges (or their RTA& STA) shall maintain requisite bank details of their investors.

   a) For investors that hold securities in demat mode, companies or their RTA & STA shall seek relevant bank details from the depositories. To this end, depositories have been advised to ensure that correct account particulars of investors are available in the database of depositories.[42]

   b) For investors that hold physical share / debenture certificates, companies or their RTA & STA shall take necessary steps to maintain updated bank details of the investors at its end.

   c) In cases where either the bank details such as MICR (Magnetic Ink Character Recognition), IFSC (Indian Financial System Code), etc. that are required for making electronic payment are not available or the electronic payment instructions have failed or have been rejected by the bank, companies or their RTA& STA may use physical payment instruments for making cash payments to the investors. Companies

[42] SEBI Circular Reference SEBI/MRD/DEP/Cir-3/06 dated February 21, 2006 and letter MRD/DEP/PP/123624/2008 dated April 23, 2008,

shall mandatorily print the bank account details of the investors on such payment instruments.

10.3.2 Non-monetary Benefits

On the basis of the particulars of the holdings of beneficial owners received from the depository as of the cut-off date, the Issuer/its R&T Agent informs the eligible beneficial owners about the corporate action/benefit. As per the Companies (Prospectus and Allotment of Securities) Rules, 2014, Rule 9A mandates the Issue of securities in dematerialised form by unlisted public companies.

(1) Every unlisted public company shall – (a) issue the securities only in dematerialised form; and (b) facilitate dematerialisation of all its existing securities in accordance with provisions of the Depositories Act, 1996 and regulations made there under.

(2) Every unlisted public company making any offer for issue of any securities or buyback of securities or issue of bonus shares or rights offer shall ensure that before making such offer, entire holding of securities of its promoters, directors, key managerial personnel has been dematerialised in accordance with provisions of the Depositories Act, 1996 and regulations made there under.

(3) Every holder of securities of an unlisted public company, (a) who intends to transfer such securities on or after 2nd October, 2018, shall get such securities dematerialised before the transfer; or (b) who subscribes to any securities of an unlisted public company (whether by way of private placement or bonus shares or rights offer) on or after 2nd October, 2018 shall ensure that all his existing securities are held in dematerialized form before such subscription.

On receipt of these details, the depository makes the credit entries in the accounts of the beneficial owners on a date requested by the Issuer / its R&T Agent (the execution date).

In cases where the details of accounts to which the Issuer / its R&T Agent has made allotment, do not match with those maintained with the depository, such records will be rejected. The depository then requires the Issuer / its R&T Agent to rectify the records. In case the Issuer / its R&T Agent is unable to rectify the records within the stipulated period, the allotment of the rejected records will have to be kept in abeyance and allotted as and when the demat accounts of the allottees are confirmed. In case of listed companies shares allotted on preferential basis and pursuant to conversion of warrants/debts have to be mandatorily be allotted in demat form.

10.3.3 Rights Issue

SEBI has vide circular SEBI/HO/CFD/DIL2/CIR/P/2020/13 January 22, 2020 issued guidelines for the purpose of Rights Issue whereby the concept of dematerialised Rights Entitlements (REs) has been introduced:

- REs shall be credited to the demat account of eligible shareholders in dematerialized form.
- In REs process, the REs with a separate ISIN shall be credited to the demat account of the shareholders before the date of opening of the issue, against the shares held by them as on the record date.
- Physical shareholders shall be required to provide their demat account details to the Issuer/Registrar to the Issue for credit of REs not later than two working days prior to the issue closing date, such that credit of REs in their demat account takes place at least one day before the issue closing date.

Trading of dematerialized REs on stock exchange platform

REs shall be traded on secondary market platform of Stock exchanges, withT+1 rolling settlement, similar to the equity shares. Trading in REs on the secondary market platform of stock exchanges shall commence along with the opening of the issue and shall be closed at least four days prior to the closure of the rights issue.

Investors holding REs in dematerialized mode shall be able to renounce their entitlements by trading on stock exchange platform or off-market transfer. Such trades will be settled by transferring dematerialized REs through depository mechanism, in the same manner as done for all other types of securities.

On closure of the Rights issue the Rights shares shall be credited to the demat accounts of the allottees by way of corporate action mandatorily in demat form in a new (temporary) ISIN of the company which is frozen for debit. This is so that securities cannot be transferred till such time the shares are available for trading.

10.3.4 Merger/Amalgamation/Capital Reduction/Sub division etc.

In case of merger/amalgamation, corporate actions of the securities under the ISIN of the transferor company shall be debited and credit will be given in the ISIN of the transferee company as per the applicable ratio. In case of listed companies credit is given in the temporary ISIN of the transferee company which is frozen for debit. This is so that securities cannot be transferred till such time the shares are available for trading.

In case of Capital Reduction, a new ISIN will be created (may be with new face value or same face value) and the securities shall be debited under the old ISIN i.e. the existing ISIN and credit is given in the new ISIN as per the applicable ratio. In case of listed companies, credit is given in the new (temporary) ISIN of the company which is frozen for debit. This is so that securities cannot be transferred till such time the shares are available for trading.

In case of sub-division/consolidation, the face value of the securities undergoes a change. Thus a new ISIN with the new face value will be obtained. Corporate action will be processed on the record date as per the applicable ratio with credit being effected in the start of the next business day. Securities will be debited in existing ISIN and credited in new ISIN.

In respect of bonus issues the eligible holders as on the record date fixed by the Company shall be entitled to receive the bonus entitlement. The bonus shares in case of listed companies would be credited as per the applicable ratio in the temporary ISIN of the company which is frozen for debit. This is so that securities cannot be transferred till such time the shares are available for trading. In case of unlisted companies, the same is credited to the normal ISIN.

Impact of Corporate Actions on SLB and Pool Balances

In case security balances are held in the Securities Lending and Borrowing/Pool Account of Clearing Member, the securities will get debited/credited as per the appropriate predefined ratio.

10.3.5 Rights of Pledgor/hypothecator

Ownership of the pledged/hypothecated securities remains with the pledgor (borrower) until the pledge is invoked. Hence, all corporate benefits - cash and non-cash - like dividends, bonus, rights etc., will accrue to the borrower. Dividends will be given to the borrower in the usual manner. The securities arising out of corporate actions like bonus, share splits or consolidation or exchange under a merger/acquisition scheme are credited to the account of the pledgor, with pledge marked in favour of the pledgee, provided that on the execution date of the corporate action, pledge exists for atleast one share.

10.3.6 Payment of Interest on Debt Securities

Eligible investors in debt securities will receive interest from the Issuers / its R&T Agents. In respect of government securities, however, the depository distributes the interest to eligible clients, after RBI has credited interest amount to the depositories account.

10.4 Public Issue

The primary market provides the channel for raising funds from investors through issue of new securities or sale of existing securities in case of offer for sale . The issuers of securities issue (create new securities or sell existing securities (in case of offer for sale) in the primary market to raise funds for investment and/or to discharge some obligation. The issue of securities in the primary market can be made by a new company, a new company promoted by an existing company, an existing public listed company, or an existing public unlisted company. They do so either through public issues (initial public offer or follow on public offer) or private placement. According to the Companies Act, 2013 every listed public company, making an initial offer of any security of Rs. 10 crore and above has to issue it only in dematerialised form in accordance with Depositories Act, 1996.

To encourage issue of securities in demat form, the SEBI has issued the following guidelines for public issues in electronic mode:

- Issuer shall be required to enter into an agreement with all the depositories.
- In case of Public issues for Equity allotment is mandatory in demat form. In case of debt securities, Issuer shall give an option to subscriber/investor to receive the physical certificates or hold the securities in electronic mode with the depository.
- In order to eliminate the risks to investors on account of fake/forged certificates, bad deliveries, delays in transfer, etc., trading in securities of company making an IPO shall be in demat form only.

10.4.1 Public Issue Procedure

Allotment in public issues in respect of Equity is mandatory in demat form. To receive the securities in electronic form, investor must open a demat account through any DP with any depository before making an application. For this purpose, the application form should have provision for investors to furnish their demat account number along with the following information:

- Depository Name
- DP's Name
- DP-lD
- Beneficiary Account Number (BO ID)

The SEBI guidelines require that all public issues of the size of Rupees ten crores and above be compulsorily made in demat form.

The disclosures and the instructions for exercising such an option is generally given in the application form as well as in the offer document. Allotment in electronic form is given only when the client name and the beneficiary account are matched with details filled in the application form. There are no charges for the allotment process. All the applications, whether with demat option or not, are treated alike for allotment purposes.

On allotment, the Issuer / its R&T agent provides the details of successful allottees who have opted for receiving securities in demat form, to the depository and the execution date when the securities should be credited to the beneficial owner's accounts. The depository will credit the securities to the allottee accounts on the execution date and the Issuer / its R&T agent inform the investors of the credit of securities in the electronic form by sending the allotment advice. The statement of accounts provided by the Depository will indicate balances created in the respective beneficiary owner's account. Figure 10.1 gives the process flow chart on an IPO through the depository.

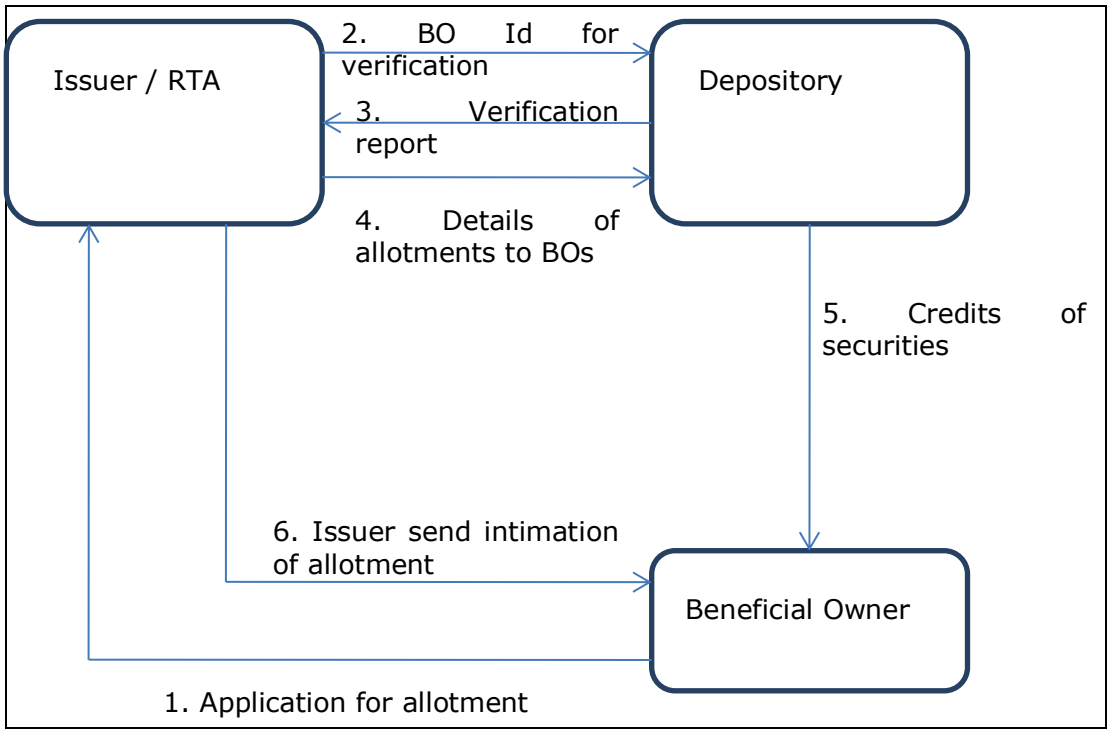
Role of DP in Public Issues

Investor intending to subscribe to a public issue can submit a completed Bid-cum-Application form to a depository participant (whose name is mentioned on the website of the stock exchange as eligible for this activity.

The DP will at the time of receipt of application give an acknowledgement to investor, by giving the counterfoil or specifying the application number to the investor, as a proof of having accepted the application form, in physical or electronic mode respectively.

After accepting the application form, respective DP shall capture and upload the relevant bid details, in the electronic bidding system of stock exchanges.

Figure 10.1: Process Flow of IPO through the depository



10.4.2 Streamlining the Process of Public Issue of Equity Shares and convertibles

SEBI, in its endeavor to provide an efficient mechanism for raising funds, has been continuously striving to streamline the process and methodologies associated with public issue fund raising process. The time duration from issue closure to listing in case of equity IPO has been reduced to 3 working days[43]. . and Application Supported by Blocked Amount (ASBA) mechanism is the sole payment mechanism in public issues.

10.4.3 Tender Offer

SEBI had issued circular No. CIR/CFD/POLICY CELL/1/2015 dated April 13, 2015 on Mechanism for acquisition of shares through stock exchange mechanism pursuant to tender-offers for the purpose of takeovers, buy back and delisting of securities.

1. The Clients (eligible shareholders) who wish to participate in the tender offers viz., buyback, takeover and delisting offer of company will be required to mention the details as per the existing

[43] SEBI circular SEBI/HO/CFD/TPD1/CIR/P/2023/140 dated August 09, 2023

process (as given below) while submitting delivery instructions slip (DIS) or electronic instructions to the Participants.

- Execution Date
- Tender Offer Type (i.e. Market Type)
- Event Number (i.e., Settlement Number)
- CM BP ID
- ISIN
- Quantity

2. Participant will continue to submit or upload the delivery instructions in NSDL system as per existing process.
3. Upon submission of the delivery instruction in respect of tender offer in eDPM system, if sufficient balance is available in the demat account of the client, requisite quantity will be blocked in the demat account of the client in favour of respective Clearing Corporation based on the market type and settlement number of tender offer. The target account of 'Clearing Member' which is specified in the DIS and entered in the eDPM system will be used to track that the transaction is pertaining to the respective Clearing Member whose CM-BP-ID is specified.
4. Upon receipt of inter-depository instruction in respect of tender offer where the target account in NSDL system is a Clearing Member Pool Account, the shares will be automatically transferred to the Clearing Corporation.
5. As per the new process, Clearing Members will not be required to submit any instructions i.e. neither physical DIS or electronic instructions to the Participants for executing Irreversible Delivery Out (i.e. early Pay-in) instructions in favour of Clearing Corporation, as was done previously.
6. In order to submit the request of Client for participating in the tender offer, brokers are required to place the order at the exchange system during the tendering period. For more information, Brokers / Clearing Members may refer the guidelines issued by respective stock exchanges / clearing corporations.
7. The aforesaid tender offer instruction executed from demat account of the client will be the irreversible nature instructions.
8. Participant will not be able to cancel the tender offer instructions executed in the depository system and that are in the status "Instruction Ready for Settlement". However, tender offer instruction which is in the status "Overdue" or "Future Dated" can be cancelled by the Participant.

Review Questions

Questions to assess your learning:

1. Which of the following is a "Cash Corporate Actions"?
   (a) Corporate Benefits
   (b) Dividend
   (c) Rights
   (d) Bonus

2. Record Date for a Corporate Action is announced by:
   (a) Exchanges
   (b) Issuers
   (c) Depository
   (d) Shareholders

3. Issuer shall be required to enter into agreement with all the _____ before coming out with a public offer.
   (a) Depositories
   (b) Depository Participants
   (c) Investors
   (d) SEBI

4. The securities offered in the public offer can only be traded in the stock exchange in demat form?
   (a) True
   (b) False

CHAPTER 11: Special Services - Debt Instruments & Government Securities

LEARNING OBJECTIVES:

After studying this chapter, you should know about dematerialisation, settlement and redemption process for:

- Certificate of Deposits
- Commercial Papers
- Government Securities

11.1 Introduction

A Debt Security is a written agreement to repay a loan, usually with interest, within a given time frame. A Debt Security is also referred to as a Debt Instrument. Depending on features like tenure, interest rate, etc. or category of the Issuers, debt instruments can be classified into different categories like bonds, debentures, commercial paper, government securities, treasury bills, etc. These are further classified broadly into subordinate bonds, floating rate bond/debenture, deep discount bond, secured/unsecured debentures, zero coupon bonds, variable coupon rate bond, etc. *While financial institutions or corporate bodies issue bonds, debentures and commercial paper, government securities are issued by governments - State or Central.*

The features associated with a debt instrument differentiate it from other instruments. These include coupon/interest rate, redemption/maturity date secured or unsecured put/call option (if any). An Issuer may issue multiple debt instruments by varying the features of the instruments. Any type of debt instrument can be admitted in the depository system. Instruments like bonds, debentures, commercial paper, certificates of deposit, etc., irrespective whether they are listed/unlisted/privately placed or even issued to a single holder, can be dematerialised.

Identification

Each debt security is given a unique identification in the depository system, which is linked to the special features of the security, through an ISIN and a descriptor. Each instrument is identified separately in the system through a unique code called ISIN. The description of each instrument is communicated / available to all the DPs and Issuers / RTAs through circulars / reports.

Instrument Descriptor

The instrument descriptor in the depository system indicates:

• Name of the Issuer
• Coupon/Interest Rate
• Security name
• Redemption date
• Face Value

For example, the descriptor 'ICICI BANK LIMITED SR-B98 14.25 UMD 14FB05 FVRS1LAC' indicates:
Issuer Name: ICICI Bank Limited
Coupon Rate: 14.25percent
Instrument Name: Series B98 UMD
Redemption date: 14/02/2005
Face Value: Rs. 1,00,000

In addition to this the depository forwards the complete details of the instrument to all Depository Participants vide circulars.

Admission of Debt Instrument to the Depository System

An Issuer may offer demat facility for its debt instruments by sending a request to the depositories detailing the type of instrument, along with a Letter of Intent. On receipt of the request, a tripartite agreement (between the depository, the Issuer and the Registrar & Transfer Agent) or bipartite agreement (between the depository and the Issuer) is signed. Once admitted, these securities are made available for dematerialisation by the depository.

Mode of Operation

The manner of operation of debt instrument in the depository is identical to that which is followed for the equity segment. *The only difference is that a debt instrument has a limited life.*

Key features

- *Identification of right ISIN while processing demat/remat requests*: Debt instruments can have exactly the same features. But they are differentiated either by a different coupon rate or redemption date or put/call exercise date or interest payment schedule or by being secured / unsecured.

- *Differentiating between the Letter of Allotment (LOA) and Debenture Certificates*: On issue of secured debentures, the Issuer initially allots LOA till the charges are created. On creation of the charge, debenture certificates are issued in lieu of the LOA. The depository allots the ISIN

to a LOA. On creation of charge, the nomenclature of ISIN of LOA is changed to that of a debenture.

For e.g. Descriptor for LOA ISIN - KMPL 9.5 LOA 29DC05 FVRS1LAC is changed to KMPL 9.5 NCD 29DC05 FVRS1LAC LOA UPTO 23MR05.

- *Time value of money*: Debt instruments bear interest. Receiving the credit of a debt instrument into demat account a day earlier, will result in earning one-day interest. Therefore, the execution date is crucial while executing any transfer instruction for debt instrument.

- *Redemption date*: On redemption, the ISIN associated with the instrument is de-activated in the depository system.

Allotment in Demat Form

Any new instrument can be issued directly in dematerialised form. Securities will be directly credited into the accounts of the investor by the depository on receipt of allotment details from Issuer/ Registrar & Transfer Agent.

Corporate Action

Interest payment for debt instruments is handled in the same way as corporate benefits are handled for equity. Issuer through its Registrar and Transfer Agent will credit the interest / redemption proceeds directly in the bank account of the investors based on bank details linked with the demat account at the time of payment or will send interest warrant directly to the investor as per address details provided in demat account.

Instruments with Call/Put Option in Demat Form

Call option, in simple terms, means the Issuer has an option of repaying the debt raised through the instrument at a time earlier than the final redemption date. Put option, in simple terms, means investor has an option of demanding repayment on the debt instrument at a time earlier than the final redemption date. Exercising of call/put option only prepones the redemption date of an instrument. If a company exercises a call option, the procedure followed is the same as one followed in normal redemption. On fulfilling the procedure prescribed, Issuer through its Registrar and Transfer Agent will make the payment of the redemption proceeds to the investor directly.

Investors in Demat Debt Instruments

The depositories have no restriction on existing accounts being used for demat of debt instruments. It depends upon the convenience of investors whether they want to open a separate account for debt instruments. The procedure for dematerialisation of debt instrument is same as that for equity shares. In order to dematerialize the certificates; an investor has to open an account with a DP. He then requests for the dematerialisation of certificates by filling up a dematerialisation request form (DRF), which is available with DP and submits it along with the physical certificates. The investor has to ensure that before the certificates are handed over to the DP for demat, they are marked as "submitted for dematerialisation". A DP does not provide a separate Transaction Statement for debt instruments. A single transaction statement reflects all the holdings and transactions in a particular account, irrespective of the type of instrument.

11.2 Certificate of Deposit (CD)

The investor has the choice of holding Certificate of Deposit (CD) in a separate account or all its holdings in one account. The minimum size to be subscribed/ transacted by investor through the depository system is Rs. 1 lakh.

Dematerialisation

Currently, Certificate of Deposits are issued only in dematerialized form with depositories. The procedure followed is identical to that followed for direct credit of equity shares during IPO/ Bonus/ Rights. Investors will have to provide demat account number alongwith DP ID to the Issuer.

Settlement

The seller authorizes its DP through Delivery Instructions to debit his account and transfer the security into the account of Buyer who may have opened account with the same or any other DP. Buyer receives the said securities in its account immediately if the buyer has given one-time standing instruction to its DP. Settlement of funds between the parties is settled outside the depository.

Redemption

CD’s will be extinguished directly from the beneficial owner accounts of Investors through corporate action for the purpose of redemption. As per the RBI Monetary and Credit Policy of 2002-03, effective June 30, 2002, banks and FIs require to issue CDs only in the dematerialised form.

11.3 Commercial Paper (CP)

An investor can subscribe to minimum of Rs. 5,00,000 or multiples thereof, as the face value of a Commercial Paper in the depository system is taken as Rs. 5,00,000. The securities (CP) will be credited in the investor's account in terms of units. For eg. If the investor invests 5 crore issue in a CP issue, then 100 units will be credited to his account. The investor has the choice of holding Commercial Paper in a separate account or all its holdings in one account.

Dematerialisation

Allotment of Commercial Paper can be made directly in dematerialised form with the Depositories. Investors will have to provide demat account number along-with DP ID to the Issuer. Issuer will provide these details to the Issuing & Paying Agent (IPA). IPA on the date of allotment will provide IPA certificate and will also share file containing details of the investors including demat account number and quantity of CPs to be credited in their demat account. Based on the details received from IPA, Issuer will provide relevant documents to depositories and will initiate the corporate action through its Registrar and Transfer Agent to credit the CPs directly in the demat account of the investors.

Settlement

Buyer and seller decide upon price and quantity of securities to be transacted. The seller authorizes its DP through delivery instructions to debit his account and transfer the securities into the account of Buyer who may have opened account with the same or any other DP. Buyer receives the securities in its account immediately if the buyer has provided standing instruction to its DP. Settlement of funds is between the parties and is as per their mutual convenience.

Redemption

As per the Reserve Bank of India (RBI) Commercial Paper Directions, 2017 issued by RBI on August 10, 2017 and Operational guidelines on Commercial Paper issued by Fixed Income Money Market and Derivatives Association of India (FIMMDA) on October 5, 2017, for redemption of commercial paper, investors will no longer be required to transfer commercial paper held in their beneficial owner accounts to Issuing and Paying Agents (IPAs) Redemption account. Commercial Papers will be extinguished directly from the beneficial owner accounts of Investors through corporate action for the purpose of redemption.

For all secondary market transactions, the seller will forward the copy of IPA certificate to the buyer.

As per the RBI Monetary and Credit Policy 2001-02, effective June 30, 2001, banks, financial institutions (FIs), primary dealers (PDs) and satellite dealers (SDs) are permitted to make fresh investments and hold CP only in dematerialised form and outstanding investments in scrip form should also be converted into demat by October, 2001.

For any buying or selling of demat debt instruments, the procedures involved for delivery or receipt of debt instrument is the same as that involved for equity shares.

11.4 Government Securities

Government securities means a securities created and issued by the Central Government or a State Government for the purpose of raising a public loan. *There are various types of Government Securities* issued by RBI. *This includes Dated Securities, Treasury Bills Sovereign Gold Bonds, Floating Rate Bonds, Inflation Indexed Bonds etc*. Dated Securities have a maturity period of more than one year. Treasury Bills have a maturity period of up to one year. All the activities relating to issue of government securities (G-Secs) - issue management, settlement of trade, distribution of interest and redemption - are handled by the Reserve Bank of India through its Public Debt Office (PDO).

Although only corporate and institutional investors subscribe to government securities, individual investors have also been permitted to subscribe to these securities. An investor in government securities has the option to have securities issued either in physical form or in book-entry form (commonly known as SGL form). There are two types of SGL facilities, viz., Primary SGL and Secondary SGL.

In the Primary SGL facility, the account is opened with the RBI directly. Only entities, which fulfill all the eligibility criteria prescribed by RBI, are permitted to open Primary SGL account. Primary SGL facility can be used only for own investments of the account holder. Any entity, which is permitted to open Primary SGL account, may avail of Secondary SGL facility as well. However, Secondary SGL facility is to be used to keep accounts of the constituent investors. In other words, Secondary SGL is used to route investments of clients who are not eligible to directly open Primary SGL accounts. The entity which offers Secondary SGL facility, has to keep sub-accounts for each investor separately in its books; Secondary SGL account with RBI will show the consolidated balances of all account holders.

11.4.1 Specific Features of Dealings in Government Securities

Account Opening

The depositories in India have been given permission to maintain Constituent SGL accounts, of investors through its DPs. Any client account opened with a DP may be used for dealing in government securities. Thus, equity shares, mutual fund units and G-Secs can be dealt with through a single account.

Dematerialisation of Government Securities

Government securities, like other securities, may be held either in physical form or as electronic entries in an SGL account. They are held in the depository system,

i. on account of dematerialisation of physical securities; or
ii. on account of transfer from SGL accounts maintained by other eligible entities; or
iii. on fresh issue of securities in dematerialised form.

Dematerialisation of Physical Certificates

The physical certificates are registered in the name of the holder with any one of the PDOs of RBI. The DP will accept request for dematerialisation from registered holders only. Requests for partial dematerialisation of a certificate are not entertained. The client has to submit a request to the DP in the DRF for G-Secs (DRF-GS) along with following documents[44]:

1. Physical certificates of securities to be dematerialised.
2. Form of Transfer[45]. The DP ensures that the client has filled the following on the DRF-GS:
   a) Option exercised as 'Submitting Physical G-Sec to ……. (depository name)'
   b) Account No.
   c) Account Holder Name
   d) Name of the Security
   e) Face Value of Securities to be Dematerialised (in words and Figures)
   f) Certificate Number

Some of the details as mentioned above may not be required by both the depositories.

ISIN number for a G-sec can be determined by relating the security description available on the physical certificate with ISIN description given by the depository. The following information is available on physical certificates:

- Nomenclature (Description) of the stock, e.g., 13.85percent Government Stock 2001
- Book Debt Certificate No., e.g., BY34 (BY stands for issuing office Bombay)

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[44] However, the specification on the form need not be same for all the depositories, such as in case of CDSL, the DRF is the same for G-Sec as used for other securities.

[45] RBI prescribed form to effect transfer of securities held in physical form. The DP ensures that the Form of Transfer is printed on a single sheet of semi security paper. The form can be obtained from the concerned depository through e-mail. Requests for partial dematerialisation of a certificate are not entertained.

- Face Value
- Date of redemption
- Date of Issue
- Name of Holder

The DP scrutinizes the form of transfer, the DRF-GS and the certificates which involves the following:

- Compare the order of holders' names on DRF-GS and certificates with the client account.
- Whether the certificate details mentioned on the DRF and the physical certificates enclosed tally.
- Verification of client's signature on the DRF with the specimen signature recorded by the DP during the account opening.
- In case of Trusts and Corporate Bodies, DP shall ensure the registration number of the signatories in the form of transfer is mentioned. Any signature difference may result in rejection of the transfer by RBI.
- ISIN
- Security descriptor
- Whether Face value as mentioned in DRF-GS tallies with what is mentioned on the Certificates

Box 11.1: ISIN

The DP captures the demat request for the G-sec if the ISIN already exists in the depository system. Based on circulars issued by RBI regarding issuance of new government securities, depositories obtain details of these securities from RBI and activate the ISINs in the depository system. If the ISIN for that specific G-Sec has not been activated, the DP informs the G-Sec cell of the depository by emailing a standard letter along with a photocopy of the certificate or the SGL credit advice. Based on this communication, ISIN is activated in the depository system. The DP ensures that in case of different Loan Codes the Clients submit separate DRF-GS and Form of Transfer. If the certificate numbers of the stock are in consecutive order for a single Loan Code, a single Form of Transfer may be used.

On receipt of the certificates, the DP ascertains whether PDO Mumbai or any other PDO has issued the certificates submitted for dematerialisation. In case of certificates issued by a PDO outside Mumbai, the DP will accept them provided the Form of Transfer has been attested by the respective PDOs. On finding the forms and security count in order, the DP issues an

acknowledgement slip duly signed and stamped to the client. In case the certificates are mutilated, or they are defaced in such a way that the material information is not readable, the DP does not accept the certificates for dematerialisation.

The DP fills details on the DRF-GS pertaining to ISIN and Loan Code. The DP has to ensure that the ISIN and Loan code are verified at two levels. After verification, the dematerialisation request is entered in the DP system. The DP must ensure that number of the security is entered in the quantity field in the DP system. A dematerialisation request number (DRN) will be generated by the system which has to be entered in the space provided for the purpose in the DRF-GS. A person other than the person who entered the data should verify details entered in the system for the DRN. The DP then releases the request to depository module.

The DP has to endorse on the reverse of the certificate by writing 'Tendered for Cancellation and credit to SGL A/c No. _____, Mumbai'. The DP is instructed not to punch holes on the face of G-Secs. This is unlike the procedure for forwarding other securities to the respective R&T. The DP has to despatch the certificates along with the request form after duly authenticating the DRF-GS to the depository, within seven working days of accepting them from the client. The depository fills-in and signs the relevant portion of the Form of Transfer and submit the documents to RBI for credit in the Constituent SGL account of the depository. On receiving the necessary confirmation from RBI, the depository confirms acceptance of the request for dematerialisation. The DP informs the client, of the changes in the client's account following the confirmation of the request

Objections for demat of Government Securities

The depository acts as a R&T Agent and discharges RTA functions for G-Secs. On receipt of physical certificates with the DRF-GS and the form of transfer, the G-Sec cell of the depository matches the details provided in the DRF-GS with the electronic message received by the depository’s system. In case of a mismatch, the depositories G-Sec cell rejects the demat request generated in the system and sends a physical certificates alongwith letter to the DP intimating them of the mismatch.

The depository’s G-Sec cell also rejects the dematerialisation requests in case RBI rejects the transfer on account of signature mismatch or in case the signatories are not registered with RBI. In such cases, the DP intimates the client of rejection by letter/fax along with the rejection memo sent by the depository's G-Sec cell.

Procedure for Transferring Government Securities in SGL Form to Depository account

An investor may be holding balances with any other entity in a book entry form (Primary SGL or Constituent SGL) which the investor may like to transfer into the depository's account. Even this process is handled through dematerialisation module of the depository. The client has to submit a request (DRF-GS) along with a SGL credit advice and a request letter for 'Value free transfer'.

The DP must ensure that the client has filled the following details in the DRF-GS including:
• Entered the option exercised as "Transfer of SGL securities to ……..(depository name)" (Not applicable to CDSL)
• Account No.
• Account Holder Name
• Name of the Security
• Face Value of Securities to be Transferred (in words and Figures)
It may be noted here, that each depository may have its own specific requirement details apart from the ones, which have been mentioned above.

The DP should ensure that the SGL account from where the BO wishes to transfer securities to depository's Constituent SGL account is registered with PDO at RBI, Mumbai. This is ascertained by examining the prefix to the SGL account number that shall begin with the prefix "BY". The DP has to fill in details of ISIN and Loan Code on the DRF-GS. If the documents are in order, the DP issues an acknowledgement slip duly signed and stamped to the client.

The DP scrutinizes the document / letter of authority (as may be specified by the depositories) and the DRF-GS which involves the following:

- Verification of Clients signature or of the authorised signatory in case of corporates on the DRF-GS with the specimen signature recorded with the DP. If the signature differs, the DP should satisfy himself of the identity of the client.
- Compare the order of holders' names on DRF-GS with the Client account.
- Loan code and Face Value mentioned in the DRF-GS.
- The DP shall scrutinise that in case of different ISIN/Loan Codes separate DRF-GS is submitted by the Clients.
- The DP shall also ensure that the ISIN and Loan code are verified at two levels. After verification, the DRF-GS is entered in the depository system.
- DP must ensure that number of securities is entered in the quantity field in the depository system.
- A DRN will be generated by the system. The DRN so generated is entered in the space provided for the purpose in the DRF-GS.

- A person other than the person who entered the data should verify details entered in the system for the DRN. The request is then released to Depository software system by the DP.
- The DP will fill the relevant portion viz., the authorisation portion of the request form.
- The DP provide the details of demat request generated to G-Sec Cell of depository in a specified format. On receipt of the demat request from DP, email is sent to the SGL counterparty requesting to initiation of transfer request in RBI system. The transfer request is initiated in the RBI E Kuber system by the SGL counterparty and intimated to the depository.
- The depository shall then confirm the request in the RBI E Kuber system post which the balances shall be credited in the Constituent SGL account of the depository.
- The demat request is then confirmed in the depository system and the electronic balances are credited to the demat account of the holder.
- The DP may inform the client of the changes in the client's account following the confirmation of the request.

Settlement of Depository Trades

Procedure for transfer of government securities within the depository is exactly similar to that of transfer of equity shares.

Settlement of RBI Trades[46]

Procedure for purchase or sale of government securities when the counter party has government security balances in book entry form with any other SGL entity may involve the following steps as listed below.

Purchase by Depository Client

In case of purchase of government securities by a depository client from a seller holding securities in an SGL account with other eligible entity, the buying client should submit *inter-SGL trade purchase instructions* in the prescribed format to the DP. The client should also make necessary funds available to the depository for the purchase of these securities. The DP, on the basis of the purchase instruction form, executes a dematerialisation instruction for the quantity of security purchased, at least one day prior to the day of trade settlement at RBI. The DP should also forward the purchase instruction form to the depository. On the basis of the documents received from the DP, the depository executes the designated form and submits it to RBI for settlement.

[46] This facility is not enabled at CDSL.

On settlement day, the RBI credits the Constituent SGL account of the depository and debit its current account for funds. On receiving information about crediting of securities from RBI the depository confirms the receipt of securities to the client.

Sale by Depository Client

In case of sale of government securities by a depository client to a buyer who maintains an SGL account with other eligible entity, the selling client should submit Inter-SGL Trade Sale Instruction in the prescribed format to the DP. The DP, on the basis of the sale instruction form, executes a rematerialisation instruction for the quantity of security sold, at least one day prior to the day of trade settlement at RBI. The DP also forwards the sale instruction form to the Depository. On the basis of the documents received from the DP, the depository executes the designated form and submits it to RBI for settlement. On settlement day, the RBI debits the SGL-2 account of the depository and credits its current account for purchase consideration. The depository credits the current account of the DP with the sale consideration and intimates the DP accordingly. The DP, on receiving the intimation, credits the amount to the account of the client.

A facility is made available to demat account holders of bank Participants who are SGL Account Holders and direct members of NDS-OM and CCIL. With this, retail individual investors holding Demat Accounts with bank Participants will be able to purchase or sell government securities through the NDS-OM system. So far, access for trading in secondary market on NDS-OM was limited to only those maintaining SGL/CSGL accounts. These new guidelines will now facilitate efficient access for retail investors holding demat accounts to the government securities market and encourage retail participation. To make it easier for retail investors to trade, NSDL has also integrated NDS-OM web module with its e-services facility. It allows the bank Participants to make available web trading facility to investors so that investors can directly trade online in government securities using the web module of NDS-OM and their existing NSDL demat account.

11.4.2 Inter-Depository Transfers for Government Securities (GSec)

Inter Depository Transfers (between Constituent Subsidiary General Ledger Accounts of depositories) shall be eligible for Value Free Transfer (VFT) if such transfers are arising out of trades in exchanges between demat account holders of different depositories. In such case, depositories shall put in place suitable mechanisms to ensure, the bonafide nature of these transfers before effecting the VFT. [47] The IDTs of Government Securities is applicable for Central

[47] RBI Circular No. RBI/2018-19/78 IDMD.CDD.No.1241/11.02.001/2018-19 dated November 16, 2018.

Government Securities, State Development Loans, Treasury Bills and Sovereign Gold Bonds issued by RBI on behalf of Central and State Governments.

The NSDL participants are required to obtain a one-time self-declaration from the demat account holders that the transactions involved is a bonafide transfer instruction before executing IDT instructions in Government Securities in their demat accounts. Participant shall verify the declaration before execution of every IDT instruction by retrieving such confirmation from its records. IDT of Government Securities would be allowed only in the demat accounts that have one-time self-declaration flag enabled. NSDL DPM allow market transfers for Government Securities between the Depositories through the "Inter Depository Transfer" module.

In case of CDSL, the current Market type and Settlement details in respect of Corporate Bond settlement is applicable for IDT of Government Securities. The IDT in Government Securities except Sovereign Gold Bonds (SGB) is permitted only for aforesaid market type and settlement details. In case of SGB, IDT will be permitted for any market type and settlement details. IDT in Government Securities is permitted for minimum quantity of one unit.

Inter depository debit transactions of G-Sec would be allowed for only those clients whose One Time Self Declaration stating that the transactions executed in his / her demat account are bonafide transactions and is obtained by the DP through electronic / physical mode and recorded in CDSL system.

The Inter-depository transfer of Government Securities are processed in three batches on weekdays and one batch on 1st/3rd/5th Saturday having deadline time as follows:

Transaction Days	**Batch**	**Deadline time for Participants to verify & release G-Sec IDT delivery/receipt instructions through CDAS**	**Depository deadline time for processing of IDT delivery/receipt instructions received from Participants**
On weekdays (i.e. Monday to Friday	I Batch	12:00 Noon	12:15 P.M.
	II Batch	03.00 P.M.	03.15 P.M.
	III Batch / Final Batch	05.00 P.M.	05.15 P.M.
On 1st, 3rd and 5th Saturdays	Final Batch	01.30 P.M.	01.45 P.M.

RBI circular also requires Participants to ensure board approved risk management processes and audit oversight are applied before transactions in Government Securities are accepted and confirm the same to depositories. The participants are required to report compliance of the same.

11.4.3 Corporate Benefits with respect to Government Securities

DP must ensure that changes in the beneficial owner's accounts, such as change in bank details, change of address, etc., are updated well in advance of the due date of interest payment and/or redemption payment due date. The depository should distribute the interest to clients who have balances in government securities, on which interest payment is due, before the EOD of the interest payment due date, after RBI has been made it available to the depository. The depository pays the redemption amount to clients who have balances in government securities, due for redemption, before the EOD of two day prior to the redemption due date, after the redemption amount has been made available to depository by RBI. The depository makes the payment directly to the clients or to the bank account of the clients as per the instructions received from the clients.

11.4.4 Rematerialisation of Government Securities

Conversion of securities in Depositories SGL II to Physical Securities

An investor in government securities holding electronic balances in the depositories Constituent SGL account can convert them into physical certificates or to book entry form by the process of rematerialisation. For this, an application has to be made to the depository, through the DP, in the Rematerialisation Request Form (RRF-GS). On receipt of the RRF-GS, the DP checks the form for completeness, correctness and validity. The DP should also ensure that sufficient free security balance is available in the account of the client. If the form is found to be in order and there is sufficient balance, the DP accepts the RRF-GS and blocks the balance of the client to the extent of the requested quantity and intimates the request to the depository. On receipt of such request, the depository blocks the balance of the client in depository system to the extent of quantity sought to be rematerialised. The DP should forward the RRF-GS to the depository within seven days of accepting such request from the client. The depository should forward the rematerialisation request to RBI in the prescribed form in case physical certificate is required by the client.

On receipt of the debit confirmation from RBI, the depositories confirm the acceptance of RRF-GS and forward the physical certificates along with the form of transfer to the client directly. In case the request was for transfer to an SGL account with other eligible entity, the depository should confirm the acceptance of RRF to the DP, after obtaining approval from RBI. On receipt of such confirmation from RBI, the depository removes the balance from the client's account. The DP then informs the client accordingly.

Objections by Depositories Shareholders System for G-SECs

The depositories G-Sec cell, on receipt of the RRF-GS, matches the Rematerialisation Request Number given on the RRF-GS with the electronic message received by the depository's system linked to its shareholders system. In case of a mismatch, the depositories G-Sec's cell will send a letter to the DP intimating them of the mismatch. The DP has to resolve the mismatch.

Review Questions

Questions to assess your learning:

1. Who resolves the mismatch during rematerialisation of government securities?
   (a) Depository Participant
   (b) Depositories G-Sec cell
   (c) SEBI
   (d) RBI

2. State whether the statement is true or false: An investor in government securities holding electronic balances in the depositories SGL-1 account can convert them into physical certificates by the process of rematerialisation.
   (a) False
   (b) True

3. What is the maturity period of Treasury Bills?
   (a) Upto One year
   (b) Upto 3 months
   (c) Upto 6 months
   (d) More than 10 years

CHAPTER 12: Foreign Portfolio Investors (FPI)

LEARNING OBJECTIVES:

After studying this chapter, you should know about:

- The concept of Foreign Portfolio Investors
- Eligibility criteria for a Foreign Portfolio Investor applying for FPI Registration to a Designated Depository Participant.
- Categories of Foreign Portfolio Investor
- Eligibility criteria of Designated Depository Participant
- Engagement of Designated Depository Participant (DPP)

12.1 Introduction

SEBI had issued the notification viz. FPI Regulations, 2014 on January 7, 2014 to put in place a framework for registration and procedures with regard to foreign investors who propose to make portfolio investment in India and vide its Circular No. CIR/IMD/FIIC/02/2014 dated January 8, 2014 issued the operational guidelines for Designated Depository Participants (DDPs) in respect of FPI regime. FPI regime commenced in India from June 1, 2014.

Further, SEBI has introduced SEBI (Foreign Portfolio Investors) Regulations, 2019 on September 23, 2019. SEBI has also issued detailed Operational Guidelines for FPIs, DDPs and eligible Foreign Investors on November 5, 2019 towards implementation of FPI Regulations 2019. Accordingly, the previous SEBI (FPI) Regulations, 2014 and Operational Guidelines have been repealed.

FPI regime offers a single route to various class of foreign investors viz., FIIs, Sub Accounts & QFIs under portfolio investment scheme to converge into one class of foreign investor viz., Foreign Portfolio Investor (FPI). DDPs will carry out the necessary due diligence and shall grant registration to FPI and issue registration certificate to the FPI.

No person shall buy, sell or otherwise deal in securities as a foreign portfolio investor unless it has obtained a certificate granted by the designated depository participant on behalf of the Board. An application for the grant of certificate as foreign portfolio investor shall be made to the designated depository participant in SEBI prescribed forms and shall be accompanied by the fee as specified in the regulations. SEBI has introduced Common Application Form (CAF) which enables FPI applicants to apply for the purpose of (a) registration of FPIs with SEBI (b) allotment of PAN and (c) carrying out of KYC for opening of Bank & Demat Account. Accordingly, NSDL developed the CAF on NSDL FPI Portal viz., FPI Monitor (www.fpi.nsdl.co.in) to be filled by the applicant in an electronic manner. The NSDL FPI portal enables applicants to fill and submit the

CAF in an electronic manner to its DDP. Post due diligence, DDP grants registration to FPI on the NSDL FPI portal. Upon registration, FPI Registration certificate is generated by NSDL FPI portal. NSDL has integrated the FPI portal with Income Tax Department (ITD) through Protean eGov Technologies Limited for allotment of PAN for the FPI.

12.2 Eligibility criteria of FPI applying for FPI Registration to a Designated Depository Participant

A DDP shall consider an application for grant of certificate of registration as a FPI if the applicant satisfies the following conditions namely:

a. the applicant is not a resident Indian;
b. the applicant is not a non-resident Indian or an overseas citizen of India;
c. non-resident Indians or overseas citizens of India or resident Indian individuals may be constituents of the applicant provided they meet the conditions specified by the Board from time to time:

   Provided that resident Indian other than individuals, may also be constituents of the applicant, subject to the following conditions, namely –

   (i) such resident Indian, other than individuals, is an eligible fund manager of the applicant, as provided under sub-section (4) of section 9A of the Income Tax Act, 1961 (43 of 1961); and
   (ii) the applicant is an eligible investment fund as provided under sub-section (3) of section 9A of the Income Tax Act, 1961 (43 of 1961) which has been granted approval under the Income Tax Rules, 1962:

   Provided further that resident Indian, other than individuals, may also be constituents of the applicant, subject to the following conditions, namely –

   (i) the applicant is an Alternative Investment Fund setup in the International Financial Services Centres and regulated by the International Financial Services Centres Authority;
   (ii) such resident Indian, other than individuals, is a Sponsor or Manager of the applicant; and
   (iii) the contribution of such resident Indian, other than individuals, shall be up to-
      (a) 2.5% of the corpus of the applicant or US $ 7,50,000 (whichever is lower), in case the applicant is a Category I or Category II Alternative Investment Fund; or
      (b) 5% of the corpus of the applicant or US $ 1.5 million (whichever is lower), in case the applicant is a Category III Alternative Investment Fund;

d. the applicant is a resident of the country whose securities market regulator is a signatory to the International Organization of Securities Commission's Multilateral Memorandum of Understanding (Appendix A Signatories) or a signatory to the bilateral Memorandum of Understanding with the Board:
   1. Provided that an applicant being Government or Government related investor shall be considered as eligible for registration, if such applicant is a resident in the country as may be approved by the Government of India;

   2. the applicant being a bank is a resident of a country whose central bank is a member of Bank for International Settlements:
      Provided that a central bank applicant need not be a member of Bank for International Settlements.
e. the applicant or its underlying investors contributing twenty-five per cent or more in the corpus of the applicant or identified on the basis of control, shall not be the person(s) mentioned in the Sanctions List notified from time to time by the United Nations Security Council and is not a resident in the country identified in the public statement of Financial Action Task Force as (i) a jurisdiction having a strategic Anti-Money Laundering or Combating the Financing of Terrorism deficiencies to which counter measures apply; or (ii) a jurisdiction that has not made sufficient progress in addressing the deficiencies or has not committed to an action plan developed with the Financial Action Task Force to address the deficiencies;

f. the applicant is a fit and proper person based on the criteria specified in Schedule II of the Securities and Exchange Board of India (Intermediaries) Regulations, 2008;
g. any other criteria specified by the Board from time to time: Provided that clause (a), (d) and (e) shall not apply to an applicant incorporated or established in an International Financial Services Centre.

Categories of Foreign Portfolio Investor:

1. "Category I foreign portfolio investor" which shall include –
   (i) Government and Government related investors such as central banks, sovereign wealth funds, international or multilateral organizations or agencies including entities controlled or at least 75% directly or indirectly owned by such Government and Government related investor(s);
   (ii) Pension funds and university funds;
   (iii) Appropriately regulated entities such as insurance or reinsurance entities, banks, asset management companies, investment managers, investment advisors, portfolio managers, broker dealers and swap dealers;

(iv) Entities from the Financial Action Task Force member countries or from any country specified by the Central Government by an order or by way of an agreement or treaty with other sovereign Governments, which are –

I. appropriately regulated funds;

II. unregulated funds whose investment manager is appropriately regulated and registered as a Category I foreign portfolio investor:

Provided that the investment manager undertakes the responsibility of all the acts of commission or omission of such unregulated fund;

III. university related endowments of such universities that have been in existence for more than five years;

(v) An entity (A) whose investment manager is from the Financial Action Task Force member country and such an investment manager is registered as a Category I foreign portfolio investor; or (B) which is at least seventy-five per cent owned, directly or indirectly by another entity, eligible under sub-clause (ii), (iii) and (iv) of clause (a) of this regulation and such an eligible entity is from a Financial Action Task Force member country:

Provided that such an investment manager or eligible entity undertakes the responsibility of all the acts of commission or omission of the applicants seeking registration under this sub-clause.

2. "Category II foreign portfolio investor" shall include all the investors not eligible under Category I foreign portfolio investors such as –

(i) appropriately regulated funds not eligible as Category-I foreign portfolio investor;

(ii) endowments and foundations;

(iii) charitable organisations;

(iv) corporate bodies;

(v) family offices;

(vi) Individuals;

(vii) appropriately regulated entities investing on behalf of their client, as per conditions specified by the Board from time to time;

(viii) Unregulated funds in the form of limited partnership and trusts;

Explanation: An applicant incorporated or established in an International Financial Services Centre shall be deemed to be appropriately regulated.

Eligibility criteria of Designated Depository Participant.

(1) SEBI shall not consider an application for the grant of approval as designated depository participant unless the applicant satisfies the following conditions, namely:

(a) the applicant is a registered DDP registered with SEBI;

(b) the applicant is a custodian of securities registered with SEBI;
(c) the applicant is an Authorised Dealer Category-1 bank authorised by the Reserve Bank of India;
(d) the applicant has multinational presence either through its branches or through agency relationships with overseas intermediaries regulated in their respective home jurisdictions;
(e) the applicant has systems and procedures to comply with the requirements of Financial Action Task Force Standards, Prevention of Money Laundering Act, 2002, Rules prescribed thereunder and the circulars issued from time to time by the Board;
(f) the applicant is a fit and proper person based on the criteria specified in Schedule II of the Securities and Exchange Board of India (Intermediaries) Regulations, 2008; and
(g) any other criteria specified by SEBI from time to time.

Other than the above stated criteria, SEBI may also consider an application from an entity, regulated in India, for grant of approval to act as designated depository participant, if it is satisfied that it has sufficient experience in providing custodial services and the grant of such approval is in the interest of the development of the securities market. However, such entity shall be registered with the SEBI as a participant and custodian and shall have tie up with Authorised Dealer Category-1 bank.

Engagement of Designated Depository Participant (DPP)

Each FPI shall engage a DDP to avail its services for obtaining a certificate of registration as foreign portfolio investor and at all times the DDP and the Custodian of the FPI shall be the same entity.

Review Questions

1. The Designated Depository Participant and the _____ of the Foreign Portfolio Investor (FPP) shall be the same entity.
   (a) Stock Broker
   (b) Custodian of the Securities
   (c) Banker
   (d) R&T Agents

2. Which of the following conditions are required to be met for becoming Designated Depository Participant?
   (a) The applicant shall have multinational presence either through its branches or through agency relationships with intermediaries regulated in their respective home jurisdictions.
   (b) The applicant should be an Authorised Dealer Category-1 bank authorised by RBI.
   (c) The applicant should be a custodian of securities registered with the Board
   (d) All of the above

3. A resident Indian can also be a Foreign Portfolio Investor. State True or False?
   (a) True
   (b) False

4. A Sovereign Wealth Fund shall be registered under which category under FPI Regulations:
   (a) Category I
   (b) Category II

Chapter 13: Investor services

LEARNING OBJECTIVES:

After studying this chapter, you should know about:

- SCORES
- Transfer of Shares to Demat Account of IEPF Authority
- Online Resolution of Disputes in the Indian Securities Market (ODR)

13.1 Introduction to Redressal of complaints through (SCORES)

SEBI Complaints Redress System (SCORES) platform is a web based centralized system to capture investor complaints against listed companies and registered intermediaries and is available 24x7. It was introduced on June 8, 2011 and has been facilitating redressal of investor grievances in a speedy manner. SEBI encourages investors to lodge complaints through electronic mode in SCORES. However, complaints received from investors in physical form are also digitized by SEBI and uploaded in SCORES. Thereafter, follow-up actions of the complaint are done in electronic form only i.e. through SCORES. Investors can easily access, retrieve and preserve the complaints lodged by them in electronic mode. Further, it enhances the turnaround time and speed of redressal of a complaint. Investors may contact the Investor Associations (IAs) recognized by SEBI for any assistance in filing complaints on SCORES. The lists of Investor Associations are available on SEBI website (www.sebi.gov.in). Investors may also seek assistance in filing complaints on SCORES from SEBIs toll free helpline number 1800 266 7575 or 1800 22 7575.

SEBI launched the new version of the SEBI Complaint Redress System (SCORES 2.0) on April 01, 2024. The new version of SCORES strengthens the investor complaint redressal mechanism in the securities market by making the process more efficient through auto-routing, auto-escalation, monitoring by the 'Designated Bodies and by reducing the timelines. The system has also been made more user friendly. In this connection, SCORES is an online system where investors can lodge their complaints through web URL and an App.

The website URL for SCORES 2.0 from April 01, 2024, is https://scores.sebi.gov.in

The salient features of SCORES 2.0 are as follows:

i. The timelines for redressal of investor complaints across the securities market i.e. 21 calendar days from date of receipt of complaint and Monitoring of the timely redressal of the investors' complaints by the 'Designated Bodies'.

ii. There will be two levels of review: First review by the 'Designated Body'. If the investor is dissatisfied with the resolution provided by the concerned Market participant Second review will by SEBI if the investor is still dissatisfied after the first review.

iii. Introduction of auto-escalation of complaints to the next level in case of non-adherence to the prescribed timelines by the Market participant or the Designated Body as the case may be.

iv. Integration with KYC Registration Agency database for easy registration of the investor on to SCORES.

Investors can lodge complaints only through new version of SCORES i.e. https://scores.sebi.gov.in from April 01, 2024. Further, investors may also seek assistance in filing complaints on SCORES from SEBIs toll free helpline number 18002667575 or 1800227575.

Key Provisions of the Circular

Submission and handling of the Complaint:

- Complaints lodged through SCORES are automatically forwarded to the concerned Entity with a copy marked to the Designated Body. Entities shall resolve the Complaint and upload the Action Taken Report (ATR) on SCORES within 21 calendar days of receipt of the Complaint. The ATR is automatically routed to the complainant.
- SEBI may concurrently monitor the Entities and Designated Bodies grievance redressal process. The Designated Body shall monitor the ATRs submitted by the Entities.

First review of the Complaint:

- If a complainant is satisfied with the resolution provided vide the ATR or does not file a review, the Complaint shall be disposed on SCORES. However, if not satisfied, the complainant may request a review within 15 calendar days from the date of the ATR.
- If a complainant files a review, or the Entity has not submitted the ATR within 21 days, the Designated Body shall begin the first review with the Entity. The revised ATR shall be delivered by the Designated Body to the complainant via SCORES within 10 days from the review request. SEBI shall handle the first review Complaint for intermediaries, where no Designated Body is appointed.
- This Circular permits Designated Bodies to monitor and handle grievance redressal and take non-enforcement actions and refer to SEBI the enforcement actions.

Second Review of the Complaint:

- Within 15 calendar days of the Designated Body submitting the ATR, complainant may request a second review, through SCORES. If a complainant is satisfied with the Designated Body's ATR or does not opt for review, within 15 days, the Complaint will be disposed of.
- If the complainant is not satisfied with the Designated Body's ATR, or such ATR is not submitted within 10 days, SEBI may initiate review with the stakeholders, including the Entity and/or Designated Body. The Entity and/or Designated Body must submit a revised ATR to SEBI through SCORES, within the timeline specified.
- SEBI or the Designated Body may seek the Entity's clarification on the ATR submitted for review. The second review Complaint shall be treated as 'resolved', 'disposed' or 'closed' only upon SEBI's disposal or closure of the Complaint in SCORES and not merely upon filing of the ATR for SEBI review.

General provisions regarding investor grievance redressal:

- Investors must first address their concerns to the Entity's designated compliance and investor complaint officials. Then within 1 year from the date of occurrence, they may lodge a Complaint, by registering on SCORES and providing requisite PAN and contact details.
- Following Complaints are excluded from SCORES processing:

  a. against unlisted/delisted companies, or companies on dissemination board of stock exchanges (except those related to securities valuation);

  b. tied to court cases or quasi-judicial matters, disputes within ODR managed by MIIs,

  c. falling within the jurisdiction of other regulatory bodies / ministries;

  d. against companies undergoing resolution under the insolvency and bankruptcy code;

  e. against companies removed from the register, or vanishing, or liquidated companies; or

  f. categorized as market intelligence, for violations of securities laws reported to SEBI.

- The complainant may choose appropriate remedies through ODR or approach other legal forums (civil or consumer courts) if not satisfied with the SEBI review or the dispute is in the nature of alis or the issues require third party rights adjudication. If an alternative is chosen, while the Complaint is pending in SCORES, the Complaint will be deemed resolved.

CDSL has developed a facility for investors to post complaints through CDSL website. A user-friendly format is made available on the website to enable the investors to register their complaints with ease. The online complaint is automatically registered in CDSL Back office

and same is being forwarded to respective DP to their web based audit login. The system driven alert for registration of complaints is also sent to DP on their registered email id. CDSL has also developed a facility for upload/ download Investor Grievance related correspondence through electronic mode i.e. through web based audit login. This facility has been made available to DPs/RTAs.

13.2 Transfer of Shares to Demat Account of IEPF Authority

In terms of Section 124 (6) of Companies Act, 2013 and the Rules notified thereunder, the shares in respect of which dividend has not been paid or claimed for a period of seven consecutive years or more, are required to be transferred by the company to the Investor Education and Protection Fund Authority (IEPF). As per the Rule 6 amended vide Investor Education and Protection Fund Authority (Accounting, Audit, Transfer and Refund) Amendment Rules, 2017, where the 7-year period provided under sub-section (5) of section 124 is completed during September 7, 2016 to May 31, 2017, the due date for transfer of such shares by companies was May 31, 2017. All companies are required to transfer such shares to IEPF, whether held in dematerialized form or physical form, to the demat account of IEPF Authority by way of corporate action. In cases, where there is a specific order of Court or Tribunal or Statutory Authority restraining any transfer of such shares and payment of dividend or where such shares are pledged or hypothecated under the provisions of the Depositories Act, 1996 or shares already been transferred under sub-rule (1) of above rules, the company shall not transfer such shares to the Fund. The company is required to furnish a statement of shares not transferred to the Investor Education and Protection Fund (Form No. IEPF-3), which inter-alia requires the company to attach order of court/tribunal/statutory authority specifying the date of such order.

Refund of the amount from IEPF

A person whose amounts have been transferred to IEPF under the various clauses of sub sec (2) of section 205C after expiry of 7 years as per provisions of the Company Act, shall be entitled to get the refund out of the Fund in respect of such claims in accordance with rules made under this section.

13.3 Online Resolution of Disputes in the Indian Securities Market (ODR)

SEBI has put in place a common Online Dispute Resolution Portal ("ODR Portal") whereby the existing dispute resolution mechanism in the Indian securities market has been streamlined under the aegis of Market Infrastructure Institutions (MIIs)), by expanding their scope and by establishing a common ODR Portal which harnesses online conciliation and online arbitration for

resolution of disputes arising in the Indian Securities Market. The same is as per SEBI (Alternative Dispute Resolution Mechanism) (Amendment) Regulations, 2023.

Under the ODR platform the investor/s can register the dispute against the following entities:

1. Listed Companies

2. Specified Intermediaries

3. Regulated entities

The separate portal https://smartodr.in is developed for registering the disputes on ODR platform. Investors needs to register on ODR platform. On SMART ODR, ODR comprises Pre-Conciliation, Conciliation, and Arbitration. These are defined below.

Pre-Conciliation: This is an initial stage where the Market Infrastructure Institution (MII) facilitates an amicable discussion between the investor and the intermediary / listed company / regulated entity (Market Participant). Resolving an issue in pre-conciliation ensures that formal proceedings are not initiated. The market participant needs to resolve the dispute within 21 calendar days.

Conciliation: This is a more formal process where a conciliator (a neutral third party) works with the disputing parties to reach a mutually acceptable agreement. It's like a facilitated negotiation with the goal of finding a compromise that all parties can agree on.

Arbitration: This is a legal process where a dispute is resolved by one or more arbitrators (neutral third parties) whose decision (the arbitral award) is binding and enforceable.

Review Questions

Questions to assess your learning:

1. SEBI Complaints Redress System (SCORES) platform is a web based centralized system to capture investor complaints against _____.

(a) Listed Companies

(b) Unlisted Companies

2. The entity is required to redress the grievance within _____ days, failing which the complaint shall be registered in SCORES.

(a) Twenty-one

(b) Forty-five

(c) Fifteen

(d) Sixty

3. Complaints falling under the purview of which of the regulatory bodies can be filed under the SCORES?

(a) PFRDA

(b)CCI

(c) SEBI

(d) All of the above

4. The company is required to furnish a statement of shares not transferred to the Investor Education and Protection Fund. State whether True or False?

(a) True

(b) False

ANNEXURES

Annexure 1: Process of Aadhar e-KYC of Resident Investors in the Securities Markets under section 11A of the PMLA, 2002

A. Online Portal based Investor (Resident) e-KYC Process (Aadhaar as an OVD)

a. Investor visits portal of KUA or the SEBI registered intermediary which is also a Sub-KUA to open account/invest through intermediary.
b. For Aadhaar e-KYC, investor is redirected to KUA portal. Investor enters the Aadhaar Number or Virtual Id and provides consent on KUA portal. Adequate controls shall be in place to ensure that Aadhaar Number is not stored anywhere by the Sub-KUA or KUA.
c. Investor will then receive OTP in mobile number registered with Aadhaar. Investor enters the OTP sent by UIDAI on KUA portal for Aadhaar e-KYC.
d. KUA will receive the e-KYC details from UIDAI upon successful Aadhaar authentication which will be further forwarded to Sub-KUA in encrypted format (using KUAs own encryption key) and will be displayed to the investor on portal. Sharing of e-KYC data by the KUA with Sub-KUA may be allowed under Regulation 16(2) of Aadhaar (Authentication) Regulation, 2016. Sub-KUA shall clearly specify the name of the KUA and Sub- KUA, and details of sharing of data among KUA and Sub-KUA while capturing investor consent.
e. Investor will fill the additional detail as required under KYC format.
f. SEBI registered Intermediary will upload additional KYC details to the KUA.

B. Assisted Investor (Resident) e-KYC process (Aadhaar as an OVD)

a. Investor approaches any of the SEBI Registered Entity/ Sub-KUAs i.e. Mutual Fund Distributors or appointed persons for e-KYC through Aadhaar.
b. SEBI registered entities (Sub-KUAs) will perform e-KYC using registered / Whitelisted devices with KUAs.
c. KUA will be required to ensure that all devices and device operators of Sub-KUA are registered / whitelisted devices with KUA.
d. Investor will then be required to enter Aadhaar No. or Virtual Id and provide consent on the registered device.
e. Investor would then have to provide biometric on the registered device.
f. SEBI registered intermediary (Sub-KUA) fetches the e-KYC details through the KUA from UIDAI which will be displayed to the investor on the registered device.
g. Investor will also provide the additional detail as required.

The KUA/ sub-KUA while performing the Aadhaar authentication shall also comply with the following:

a. For sharing of e-KYC data with Sub-KUA under Regulation 16(2) of Aadhaar (Authentication) Regulations, 2016, KUA shall obtain special permission from UIDAI by submitting an application in this regard. Such permissible sharing of e- KYC details by KUA can be allowed with their associated Sub-KUAs only.

b. KUA shall not share UIDAI digitally signed e-KYC data with other KUAs. However, KUAs may share data after digitally signing it using their own signature for internal working of the system.

c. e-KYC data received as response upon successful Aadhaar authentication from UIDAI will be stored by KUA and Sub-KUA in the manner prescribed by Aadhaar Act/Regulations and circulars issued by UIDAI time to time.

d. KUA/Sub-KUA shall not store Aadhaar number in their database under any circumstances. It shall be ensured that Aadhaar number is captured only using UIDAI`s Aadhaar Number Capture Services (ANCS).

e. The KUA shall maintain auditable logs of all such transactions where e-KYC data has been shared with sub-KUA, for a period specified by the Authority.

f. It shall be ensured that full Aadhaar number is not stored and displayed anywhere in the system and wherever required only last 4 digits of Aadhaar number may be displayed.

g. As per Regulation 14(i) of the Aadhaar (Authentication) Regulation, 2016, requesting entity shall implement exception-handling mechanisms and backup identity authentication mechanism to ensure seamless provision of authentication services to Aadhaar number holders.

h. UIDAI may conduct audit of all KUAs and Sub KUAs as per the Aadhaar Act, Aadhaar Regulations, AUA/KUA Agreement, Guidelines, circulars etc. issued by UIDAI from time to time.

i. Monitoring of irregular transactions - KUAs shall develop appropriate monitoring mechanism to record irregular transactions and their reporting to UIDAI.

j. Investor Grievance Handling Mechanism - Investor may approach KUA for their grievance redressal. KUA will ensure that the grievance is redressed within the timeframe as prescribed by UIDAI. KUA will also submit report on grievance redressal to UIDAI as per timelines prescribed by UIDAI.

KUAs and Sub-KUA shall also comply with the Aadhaar Act Regulations, circulars, guidelines etc. issued by UIDAI from time to time. In case of any non-compliance on the part of KUAs/sub KUAs, SEBI may take necessary action.

Annexure 2: Use of Technology for KYC

SEBI, from time to time has issued various circulars to simplify, harmonize the process of KYC by investors / RI. Constant technology evolution has taken place in the market and innovative platforms are being created to allow investors to complete KYC process online. SEBI held discussions with various market participants and based on their feedback and with a view to allow ease of doing business in the securities market, it has been decided to make use of following technological innovations which can facilitate online KYC:

a. eSign service is an online electronic signature service that can facilitate an Aadhaar holder to forward the document after digitally signing the same provided the eSign signature framework is operated under the provisions of Second schedule of the Information Technology Act and guidelines issued by the controller.
b. In terms of PML Rule 2 (1) (cb) "equivalent e-document" means an electronic equivalent of a document, issued by the issuing authority of such document with its valid digital signature, including documents issued to the Digital Locker account of the investor as per Rule 9 of the Information Technology (Preservation and Retention of Information by Intermediaries Providing Digital Locker Facilities) Rules, 2016.
c. Section 5 of the Information Technology Act, 2000 recognizes electronic signatures (which includes digital signature) and states that where any law provides that information or any other matter shall be authenticated by affixing the signature or any document shall be signed or bear the signature of any person then such requirement shall be deemed to have been satisfied, if such information or matter is authenticated by means of a digital signature affixed in such manner as prescribed by the Central Government. Therefore, the eSign mechanism of Aadhaar shall be accepted in lieu of wet signature on the documents provided by the investor. Even the cropped signature affixed on the online KYC form under eSign shall also be accepted as valid signature.

In order to enable the Online KYC process for establishing account based relationship with the RI, Investor's KYC can be completed through online / App based KYC, in-person verification through video, online submission of Officially Valid Document (OVD) / other documents under eSign, in the following manner:

i. The investor visits the website/App/digital platform of the RI and fills up the online KYC form and submits requisite documents online.

ii. The name, photograph, address, mobile number, email ID, Bank details of the investor shall be captured online and OVD / PAN / signed cancelled cheque shall be provided as a photo / scan of the original under eSign and the same shall be verified as under:

- Mobile and email is verified through One Time Password (OTP) or other verifiable mechanism. The mobile number/s of investor accepted as part of KYC should preferably be the one seeded with Aadhaar. (the RI shall ensure to meet the requirements of the mobile number and email as detailed under SEBI circular no. CIR/MIRSD/15/2011 dated August 02, 2011).
- Aadhaar is verified through UIDAIs authentication / verification mechanism. Further, in terms of PML Rule 9 (16), every RI shall, where the investor submits his Aadhaar number, ensure that such investor to redact or blackout his Aadhaar number through appropriate means where the authentication of Aadhaar number is not required under sub-rule (15). RI shall not store/ save the Aadhaar number of investor in their system. e-KYC through Aadhaar Authentication service of UIDAI or offline verification through Aadhaar QR Code/ XML file can be undertaken, provided the XML file or Aadhaar Secure QR Code generation date is not older than 3 days from the date of carrying out KYC. In terms of SEBI circular No. CIR/MIRSD/29/2016 dated January 22, 2016 the usage of Aadhaar is optional and purely on a voluntary basis by the investor.
- PAN is verified online using the Income Tax Database.
- Bank account details are verified by Penny Drop mechanism or any other mechanism using API of the Bank. (Explanation: based on bank details in the copy of the cancelled cheque provided by the investor, the money is deposited into the bank account of the investors to fetch the bank account details and name.) The name and bank details as obtained shall be verified with the information provided by investor.
- Any OVD other than Aadhaar shall be submitted through Digiocker/under eSign mechanism.

iii. In terms of Rule 2 (d) of Prevention of Money-Laundering (Maintenance of Records) Rules, 2005 (PML Rules) “Officially Valid Documents” means the following:

- the passport,
- the driving licence,
- proof of possession of Aadhaar number,
- the Voter's Identity Card issued by Election Commission of India,
- job card issued by NREGA duly signed by an officer of the State Government and
- the letter issued by the National Population Register containing details of name, address, or any other document as notified by the Central Government in consultation with the Regulator.

iv. Further, Rule 9(18) of PML Rules states that in case OVD furnished by the investor does not contain updated address, the document as prescribed therein in the above stated Rule shall be deemed to be the OVD for the limited purpose of proof of address.

v. PML Rules allows an investor to submit other OVD instead of PAN, however, in terms of SEBI circular No. MRD/DoP/Cir- 05/2007 dated April 27, 2007 the requirement of mandatory submission of PAN by the investors for transaction in the securities market shall continue to apply.

vi. Once all the information as required as per the online KYC form is filled up by the investor, KYC process could be completed as under:

- The investor would take a print out of the completed KYC form and after affixing their wet signature, send the scanned copy / photograph of the same to the RI under eSign, or
- Affix online the cropped signature on the filled KYC form and submit the same to the RI under eSign.

vii. The RI shall forward the KYC completion intimation letter through registered post/ speed post or courier, to the address of the investor in cases where the investor has given address other than as given in the OVD. In such cases of return of the intimation letter for wrong / incorrect address, addressee not available etc, no transactions shall be allowed in such account and intimation shall also sent to the Stock Exchange and Depository.

viii. The original seen and verified requirement under SEBI circular no. MIRSD/SE/Cir-21/2011 dated October, 5 2011 for OVD would be met where the investor provides the OVD in the following manner:

- As a clear photograph or scanned copy of the original OVD, through the eSign mechanism, or;
- As digitally signed document of the OVD, issued to the DigiLocker by the issuing authority.

ix. SEBI vide circular no. MIRSD/Cir- 26 /2011 dated December 23, 2011 had harmonized the IPV requirements for the intermediaries. In order to ease the IPV process for KYC, the said SEBI circular pertaining to IPV stands modified as under:

- IPV/ VIPV would not be required when the KYC of the investor is completed using the Aadhaar authentication / verification of UIDAI.
- IPV / VIPV shall not be required by the RI when the KYC form has been submitted online, documents have been provided through digiocker or any other source which could be verified online.

<u>Features for online KYC App of the RI</u>

SEBI registered intermediary may implement their own Application (App) for undertaking online KYC of investors. The App shall facilitate taking photograph, scanning, acceptance of OVD through Digilocker, video capturing in live environment, usage of the App only by authorized person of the RI. The App shall also have features of random action initiation for investor response to establish that the interactions not pre-recorded, time stamping, geo-location tagging to ensure

physical location in India etc is also implemented. RI shall ensure that the process is a seamless, real-time, secured, end-to-end encrypted audiovisual interaction with the customer and the quality of the communication is adequate to allow identification of the customer beyond doubt. RI shall carry out the liveliness check in order to guard against spoofing and such other fraudulent manipulations. The RI shall before rolling out and periodically, carry out software and security audit and validation of their App. The RI may have additional safety and security features other than as prescribed above.

Feature for Video in Person Verification (VIPV) for Individuals

To enable ease of completing IPV of an investor, intermediary may undertake the VIPV of an individual investor through their App. The following process shall be adopted in this regard:

i. Intermediary through their authorised official, specifically trained for this purpose, may undertake live VIPV of an individual customer, after obtaining his/her informed consent. The activity log along with the credentials of the person performing the VIPV shall be stored for easy retrieval.
ii. The VIPV shall be in a live environment.
iii. The VIPV shall be clear and still, the investor in the video shall be easily recognisable and shall not be covering their face in any manner.
iv. The VIPV process shall include random question and response from the investor including displaying the OVD, KYC form and signature or could also be confirmed by an OTP.
v. The RI shall ensure that photograph of the customer downloaded through the Aadhaar authentication / verification process matches with the investor in the VIPV.
vi. The VIPV shall be digitally saved in a safe, secure and tamper-proof, easily retrievable manner and shall bear date and time stamping.
vii. The RI may have additional safety and security features other than as prescribed above.

Annexure 3: Operational Mechanism for Margin Pledge

Initiation of Margin Pledge

1. For the purpose of providing collateral in form of dematerialised securities as margin, a client shall initiate the margin pledge only in favour of the TM / CM's separate client securities margin account tagged as 'Client Securities Margin Pledge Account' through physical instruction or electronic instruction mechanism provided by the Depositories. Such instructions shall have details of client UCC, TM, CM and Default Segment.

2. In cases where a client has given a Power of Attorney (the "POA") to the TM / CM, the TM / CM may be allowed to execute the margin pledge on behalf of such client to the demat account of the TM / CM tagged as 'Client Securities Margin Pledge Account'.

3. The 'pledge request form' shall have a clause regarding express consent by the client for re-pledge of the securities by the TM to CM and further by the CM to CC.

4. On receipt of the margin pledge instruction either from the client or by TM / CM as per the POA, DP of a client shall initiate a margin pledge in the client's account and the status of instruction will remain pending till confirmation is received from client / pledgor. The client will submit acceptance by way of One Time Password (the "OTP") confirmation on mobile number / registered e-mail id of the client or other verifiable mechanism. Such OTP confirmation from client shall also be required, if securities of such client are being re-pledged. The Depositories shall develop a verifiable mechanism for confirmation of the pledge by the client.

5. In client account, margin pledge or re-pledge shall be reflected against each security, if it is pledged / re-pledged and in whose favour i.e. TM / CM / CC.

6. The TM can re-pledge only in favour of CM's demat account tagged as 'Client Securities Margin Pledge Account'. The CM shall create a re-pledge of securities on the approved list only to the CC out of 'Client Securities Margin Pledge Account'. While re-pledging the securities to the CC, CM/TM shall fully disclose the details of the client wise pledge to the CC/CM. CM would need to have visibility of client level position and client collateral so that CM shall allow exposure and / or margin credit in respect of such securities to that client to whom such securities belong.

Release of Margin Pledge

7. In case of a client creating pledge of the securities in favour of the TM / CM against margin, the TM / CM may release the 'margin pledge' after their internal exposure and risk management checks. The request for release of pledge can be made by the client to its DP or to the TM / CM, who shall release the pledge in the Depository system.

8. For release of client securities given to TM/CM as margin pledge and which are re-pledged in favour of the CC, the CM shall make a request to the CC. The client through TM, or the TM on his own, may request the CM to make an application to the CC for the release of margin pledge. CC shall do margin utilisation check at the CM level before releasing the re-pledge of securities to the CM. The CC will release the re-pledged client securities to CM after blocking other available free collateral of CM. The CM /TM in turn after doing their risk management shall release the securities to TM / client, as the case may be.

Invocation of Margin Pledge

9. In case of default by a client of TM where the clients securities are re- pledged with the CM/ CC, the invocation request shall be made by the TM to CM and CM in turn will make request to CC as per the procedure laid down by the Depositories under their bye-laws.

10. In case of default by a client of TM who has pledged securities with TM, The TM shall invoke the pledge.

11. In case of default by a client of TM whose securities are re-pledged by TM with CM, the invocation request shall be made by TM to the CM. The CM, after doing its internal exposure and risk management, shall release the re-pledged securities to the 'Client Securities Margin Pledge Account' of the TM. The TM in turn will invoke the pledge of client's securities.

12. In the event of default by a client of a TM, whose securities are re-pledged by TM with CM and CM in turn has re-pledged with CC, the TM shall make a request for invocation of pledge with CM and CM in turn shall file a request with CC to release the re-pledged securities for invocation. The CC shall block equivalent available free collateral provided by CM and shall release the re-pledged securities of that defaulting client of TM to CM in "Client Securities Margin Pledge Account" of CM. The CM shall do his own risk assessment of TM and would release re-pledged securities of the defaulting client of TM in "Client Securities Margin Pledge Account" of TM and TM shall invoke the pledge in Demat account of the client.

13. In case of default by a client/ TM of CM whose securities are re-pledged with CC, CM shall file a request with CC for invocation of the pledged/ re-pledged securities of that client/TM. CC shall block the equivalent available free collateral provided by CM and shall release the re-pledged securities of that defaulting client/TM in “Client Securities Margin Pledge Account” of CM and the CM shall invoke the pledge in Demat account of the client/ TM.

14. In case of default by TM or client of TM, CM shall be entitled to invoke pledged/ re-pledged securities of the TM. CM shall also be entitled to invoke directly the repledged securities of client of TM having open position with CM to close out such positions.

15. In case of default by the CM, CC shall invoke securities pledged by the CM. After exhausting the CM own collateral, CC may also invoke re-pledge securities of that client who has open position and their re-pledged securities are blocked by CC to close out their open positions. The re-pledge securities of other clients who did not have any open position with CC, their securities shall not be available to CC for invocation to meet settlement default of the CM.

Annexure 4: Framework for Utilization of Client's Pledged Securities For Exposure And Margin

1. At present, the margin requirement is computed in real time at client level by the CC and is aggregated at the level of CMs to arrive at the total margin requirement. The CC maintains and monitor the collateral at the level of CM. The CM is required to provide the collateral in various acceptable forms such as Cash, Bank Guarantee, Govt. Securities, pledge of acceptable shares, etc.

2. The day to day real time risk management with respect to client / TM exposure, and the margin requirement shall continue to be the responsibility of the CM, and CC shall not monitor the client level exposure against the available client level collateral in real time.

3. In order to provide exposure to CM and/or to the clients / TM of a CM, CC shall aggregate margin requirement at CM level that shall be compared against the available collateral in real time as aggregate of;

a. cash and cash equivalent deposited by CM,
b. own securities pledged by CM with CC,
c. CC requires minimum 50% of the collateral to be deposited in cash and cash equivalent, if the total securities pledged by CM with CC exceed the total cash and cash equivalent, the value of securities will be restricted to amount of cash and cash equivalent.
d. The TM's proprietary margin requirement will be treated as a client of CM and aggregated along with other clients.

4. CM shall be allowed to re-pledge acceptable/approved client securities with the CC by furnishing the UCC wise client details. CC shall not allow any exposure to the CM on re-pledged securities of the client / TM. In case of a trade by a client / TM whose securities are re-pledged with CC, the CC shall first block the available collateral provided by CM as mentioned in point 3 above. However, at periodical interval (latest by end of day), CC shall release the blocked securities collateral of CM to the extent of re-pledged securities collateral of that client / TM available with the CC.

5. In the event of default by a client of TM, the TM shall make good the default to CM. In the event of default by a client or TM on its proprietary position, the CM shall make good the default to CC. However in the event of default by client/s leading to default of TM and also the CM, the following process shall be applied by TM/CM/CC for invocation of pledged and re-pledged securities of client/TM/CM:

a. In case of default by a client of TM/CM or default of TM leading to the default of CM, CC shall: (i). encash the available collateral including cash, cash equivalent collateral, CM's own pledged securities; (ii). after encashing the available collateral of CM, also be entitled to directly invoke the re-pledged securities of client / TM who has any open position so as to close out the open positions of that client; (iii). not be entitled to invoke re-pledged securities of those clients who did not have any open position to meet settlement obligation of the defaulting CM.

b. In case of default by a client of TM or default of TM, CM shall: (i). be entitled to liquidate available cash, cash equivalent collateral and TM's own pledged /or re-pledged securities with CM/ CC to meet settlement/margin obligations of defaulting TM or client(s) of that TM; (ii). after encashing the available collateral of TM, be entitled to directly invoke re-pledged securities of the client of defaulting TM who has open position through CM so as to close out his position; (iii). not be entitled to invoke re-pledged securities of those clients of defaulting TM who did not have any open position; (iv). ensure that the client securities of TM/ CM re-pledged with the CC are not utilized for meeting the margin requirement/ settlement obligation of a TM's/CM's own proprietary position or margin requirement/ settlement obligation of any other client of TM / CM.

About NISM

National Institute of Securities Markets (NISM) is an educational institution established by the Securities and Exchange Board of India (SEBI), the securities market regulator, in 2006. The Institute was established in pursuant to the Union Finance Minister's proposal, in his 2005-06 Budget Speech, to set up an institution 'for teaching and training intermediaries in the securities markets and promoting research'.

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This workbook has been developed to assist candidates in preparing for the National Institute of Securities Markets (NISM) Certification Examination for Depository Operations. NISM-Series-VI: Depository Operations Certification Examination seeks to create a common minimum knowledge benchmark for associated persons engaged or employed by a registered depository participant in (a) dealing or interacting with clients; (b) dealing with securities of clients; (c) handling redressal of investor grievances; (d) internal control or risk management; (e) activities having a bearing on operational risk; (f) maintenance of books and records pertaining to the above activities.

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