

**GENERAL MANAGER
MARKET REGULATION DEPARTMENT**

SEBI/MRD/Dep/Cir-03/2007
February 13, 2007

The Chairman and Managing Director,
National Securities Depository Ltd.,
Trade World, 4th Floor,
Kamala Mills Compound,
Senapati Bapat Marg, Lower Parel,
Mumbai – 400013

The Managing Director and CEO,
Central Depository Services (India) Ltd.,
Phiroze Jeejeebhoy Towers,
17th Floor, Dalal Street,
Mumbai – 400 023

Dear Sir(s),

**Sub: Safeguards to address the concerns of the investors on transfer of securities
in dematerialized mode**

1. The concerns arising out of transfer of securities from the Beneficial Owner (BO) Accounts without proper authorization by the concerned investor have been brought to the notice of SEBI by some Investors' Associations. The issue was discussed by the Secondary Market Advisory Committee (SMAC) of SEBI.
2. Based on the recommendations of the SMAC and in consultation with the depositories, it has been decided to put in place the following safeguards to address the concerns of the investors on the captioned subject :
 - a. The depositories shall give more emphasis on investor education particularly with regard to careful preservation of Delivery Instruction Slip (DIS) by the BOs. The Depositories may advise the BOs not to leave "blank or signed" DIS with the Depository Participants (DPs) or any other person/entity.
 - b. The DPs shall not accept pre-signed DIS with blank columns from the BO(s).
 - c. The DPs shall issue only one DIS booklet containing not more than 20 slips for individual account holders and not more than 100 slips for non-individual account holders, at a time.
 - d. If the DIS booklet is lost / stolen / not traceable by the BO, the same must be intimated to the DP immediately by the BO in writing. On receipt of such intimation, the DP shall cancel the unused DIS of the said booklet.
 - e. The DPs can issue subsequent DIS booklet to a BO only after the BO has used not less than 75% of the slips contained in the previous DIS booklet. The DP shall also ensure that a new DIS booklet is issued only on the strength of the DIS instruction request slip (contained in the previous booklet) duly complete in all respects, unless the request for fresh booklet is due to loss, etc., as referred to in clause (d) above.

- f. The DPs shall not issue more than 10 loose DIS to one accountholder in a financial year (April to March). The loose DIS can be issued only if the BO(s) come in person and sign the loose DIS in the presence of an authorised DP official.
 - g. The DPs shall put in place appropriate checks and balances with regard to verification of signatures of the BOs while processing the DIS.
 - h. The DPs shall cross check with the BOs under exceptional circumstances before acting upon the DIS.
 - i. The DPs shall mandatorily verify with a BO before acting upon the DIS, in case of an account which remained inactive i.e., where no debit transaction had taken place for a continuous period of 6 months, whenever all the ISIN balances in that account (irrespective of the number of ISINs) are transferred at a time. However, in case of active accounts, such verification may be made mandatory only if the BO account has 5 or more ISINs and all such ISIN balances are transferred at a time. The authorized official of the DP verifying such transactions with the BO, shall record the details of the process, date, time, etc., of the verification on the instruction slip under his signature.
3. The depositories are accordingly advised to:
 - a. make necessary amendments to the relevant bye-laws, rules and regulations for the implementation of the above decision immediately, as may be necessary/applicable.
 - b. bring the provisions of this circular to the notice of the DPs of the Depository and to disseminate the same on their website as well as monitor compliance by DPs.
 - c. communicate to SEBI the status of implementation of the provisions of this circular in the Monthly Development Report.
 4. This circular is being issued in exercise of powers conferred under Section 11 (1) of the Securities and Exchange Board of India Act, 1992 and Section 19 of the Depositories Act, 1996 to protect the interests of investors in securities market.

Yours faithfully,

V S SUNDARESAN