

**CHIEF GENERAL MANAGER**

**MARKET INTERMEDIARIES REGULATION AND SUPERVISION DEPARTMENT**

MIRSD/DPS-III/ Cir - 9 /07

July 3, 2007

The Chairman & Managing Director National Securities Depository Ltd. Trade World, Kamala Mills Compound, Senapati Bapat Marg, Lower Parel, Mumbai – 400 013	The Managing Director & CEO Central Depository Services (India) Ltd. Phiroze Jeejeebhoy Towers, Dalal Street, Fort, Mumbai 400 023
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Dear Sir/s,

**Sub: Supervision of branches of depository participants**

1. It has come to SEBI's notice that the Depository Participants (DPs) are operating through branch offices which are having Depository Participant Modules (DPMs) directly linked to the Depository server and branch offices which are connected through back offices software of the DP. Certain DPs are connected with the Depository through one or more DPMs. Some of the DPs have offline branches which function either as full-fledged braches offering all DP services or only as collection centre.
2. In terms of Regulation 46 of the SEBI (Depositories and Participants) Regulations, 1996, every DP shall have adequate mechanism for the purpose of reviewing, monitoring and evaluating its internal accounting controls and systems. Further, clause 19 of the Code of Conduct for Participants contained in the Third Schedule to the Regulations inter alia states that the DP shall ensure that it has satisfactory internal control procedure in place. It is clarified that these provisions apply to DPs in respect of all their branches also. DPs are therefore required in terms of these provisions to put in place appropriate mechanisms to ensure that their branches are carrying on the operations in compliance with the applicable regulations, bye-laws, etc. Further, DPs are also required to put in place suitable internal control systems to ensure that all branches are exercising due diligence in opening accounts, complying with KYC requirements, in ensuring systems safety in complying with client instructions, manner of uploading client instructions, in verifying signatures and in maintaining client records, etc. DPs shall also ensure that the branches are suitably integrated. The DPs whose systems do not measure up to the above are hereby advised to ensure such compliance immediately.
3. Depositories shall examine the adequacy of the above mechanisms during their inspections of DPs. The Depositories shall also carry out surprise inspections/ checks of the DP branches apart from the regular inspection of the DPs.
4. Depositories shall also put in place appropriate mechanisms for monitoring opening of branches by DPs.

5. The Depositories are advised to: -
  - a. Bring the provisions of this circular to the notice of the DPs of the Depositories and also to disseminate the same on the website;
  - b. Include the aforesaid clarifications, as applicable, in the advertisement campaigns released by them from time to time for better understanding of the investors;
  - c. Make amendments to the relevant bye-laws, rules and regulations for the implementation of the above decision immediately, as may be applicable/necessary;
  - d. Communicate to SEBI the status of the implementation of the provisions of this circular in the Monthly Development Report.
  
6. This circular is being issued in exercise of the powers conferred by Section 11 (1) of Securities and Exchange Board of India Act, 1992 to protect the interest of investors in securities and to promote the development of, and to regulate, the securities market.

Yours faithfully,

**P K Kuriachen**