



Central Depository Services (India) Limited

RTA Inspection Manual

December 2023

Central Depository Services (India) Limited

Inspection Manual

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Chapter 1 - Introduction

The Indian stock market has been witnessing unprecedented buoyancy. Strong macro-economic fundamentals, robust corporate results, positive investment climate, sound business outlook have resulted in broadening market base. As a consequence, the transaction volumes have increased drastically. This made necessary to maintain share holder records updated on consistent basis. This has also given impetus to outsourcing this function to a specialized agency called ***Register and Transfer Agent (RTA)***.

RTA records the changes in ownership, maintain the issuer's security holder records, cancel and issue certificates and distribute dividends. With the conversion of physical securities in dematerialized form, the scope of Register and Transfer Agent (RTA) has broadened to include dematerialization of existing physical securities, playing an important role in allotment of new scrips in dematerialized form, converting back from electronic form to physical type i.e. rematerialisation of securities, etc. RTA also looks after the disbursement and communication of various corporate actions like Bonus, Right Shares, Dividend, etc.

RTA forms a nexus between the investor or the security holder and the Issuing companies. In the dematerialization era, since the securities in the electronic form are kept with the Depositories through their Depository Participants (DP), the Depositories and their DPs also appear in the picture. DP acts as an agent of its Beneficial Owners (BO) in various instances like forwarding of physical share certificates of the BO to the RTA for dematerialization, forwarding the rematerialisation request on behalf of its BO, etc. The Depositories provide the RTA with various details regarding the holding of securities by various investors in the dematerialized form for allotment of various corporate actions, etc. Thus, it is vital for the inspecting agency to understand not only the operations of the RTA but also the operations of the DP.

RTA has been defined under the SEBI (Registrar to an Issue and Share Transfer Agents) Regulations, 1993 – Section 2(g) -

Accordingly, “Share Transfer Agent” means –

- (i) any person, who on behalf of anybody corporate, maintains the records of holders of securities issued by such body corporate and deals with all matters connected with the transfer and redemption of its securities;
- (ii) a department or division, by whatever name called, of a body corporate performing the activities referred in sub-clause (i) if at any time the total number of the holders of its securities issued exceed one lakh;”

As Register and Transfer Agents stand between issuing companies and security holders, efficient transfer agent operations are critical to the success of primary and secondary market.

To enhance the controls and to bring ease in monitoring the operations, SEBI vide *Regulation 53A* has stated to the Issuer to ensure that all the matters relating to transfer of securities, maintenance of records of holders of securities, handling of physical securities and establishing connectivity with the depository shall be handled and maintained at a single point i.e., either in-house by the Issuer or by a registered RTA.

Thus, to protect overall interest of the capital market and the investors, CDSL has formulated bye laws, operating instructions and also it comes out with amendments regularly through communiqués. It is very crucial for depository to ascertain whether the RTA so registered carries on the operations in the overall interest of the capital market and the investors. To achieve this objective, CDSL conducts regular Inspection of its DPs and RTAs through their own staff and independent firms of professionals.

The underlying focus of these inspections is to improve the operations of the RTA, to verify whether RTA are aware of and adhere to the Act, Rules, Regulations, various communiqués issued by CDSL and to ensure better and efficient record keeping by them so that better services are provided to the investor.

Chapter 2 - Role and Scope of Inspection

The objectives of the inspection of the Register and Transfer Agent (RTA) and Issuers having in house RTA operations are to ensure that all operations are performed in a manner that are in the interest of the investors and the market participants and all the provisions of the Act, regulations and communiqués issued are complied with.

The inspection shall have topic wise coverage of all the aspects related to operations of RTA. The major areas of inspection include but not limited to the following:

- *Dematerialization of existing scrips*: Collecting physical certificate of the BO's from the DP's and processing it.
- *Dematerialization of new issue*: To process securities in electronic mode of a fresh issue of securities by the issuer;
- *Corporate Action*: Processing of cash and non-cash corporate action which includes providing information about the corporate action and reporting of the same to various authorities.
- *Compliance* with SEBI Regulations, CDSL bye laws, Operating Instructions and communiqués.
- *Records maintained* for recording and redressal of investor grievances / complaints.
- Manner of maintaining of various records and documents in order to retrieve them whenever required.

Chapter 3 – Sample Selection

As inspection is a time bound program, it is inevitable for IA to carry out verification on sample basis. Sampling involves testing of relatively small number of transactions to obtain knowledge about/verify a larger population.

In order to have an effective conclusion based on the verification of sample, the sample size should be adequate / fairly large as compared to the population and should be able to represent the population from which it is drawn. CDSL from time to time does revision of the sample for the verification as per the compliance requirements. There is a common sampling plan followed by both the Depositories to carry out inspection of RTAs/Issuer RTAs. However if IA comes across any lapses or mistakes then the sample size may be further enlarged to substantiate the findings. However, the extent of testing to be done is primarily a matter of judgment of the IA.

To ensure good and reasonable standard of work, the auditor should adopt standards and technique that can lead him to an informed professional opinion. The factors that should be considered for deciding upon the extent of checking on a sampling plan are following:

- Size of the organization under audit
- State of internal control
- Adequacy and reliability of records
- Degree of desired confidence

The activity wise samples that are to be selected for verification are tabulated below:

Selection of ISIN:

As an RTA provides services to various Companies for multiple ISIN, an inspection of a single ISIN would not reveal a correct picture of the internal controls and the efficiency of the procedures followed at its end. Thus, to ensure a proper inspection and to portraint a correct and actual state of internal controls instated by the RTA, IA should consider more than one ISIN for verification purpose.

The IA should principally select ISIN for verification and there from should activity wise select the samples as given in this chapter. Accordingly, the sample for selection of ISIN is given below.

Reconciliation

(A) Reconciliation between CDSL / NSDL control position and Register of Members (ROM).

- 10% of Active ISINs or 50 whichever is higher with a maximum cap of 200 ISINs.

-

(B) Reconciliation between Issued Capital and summation of shares held in Physical form, CDSL and NSDL system

5 ISINs

Balances to be verified for three different dates i.e.

- 1) Previous day of the inspection,
- 2) Quarter end date for which Reconciliation of Share Capital Audit report is due and submitted by the issuer
- 3) Date in between previous day of inspection and Quarter end date.

Note:

1. The IA should state the ISIN selected for verification in the report to CDSL.
2. In case if the RTA has handled less than the above number of ISIN, the IA should consider all the ISIN for verification.

After selection of the ISIN on sample basis as mentioned above, the IA should, for the ISIN so selected, decide on activity wise samples as given below:

(A) Dematerialization of Existing Scrips

10% of total demat request confirmed or 50 whichever is higher with a maximum cap of 350.

(In case if the DRF's and related documents like the share certificates, etc is not available for verification due to various reasons like destruction, storage at different place, etc the IA may check the live cases subject to the samples stated above. Such fact of verification should be stated in the report to CDSL)

Demat Rejections

10% of total demat request rejected or 50 whichever is higher with a maximum cap of 350.

(B) Rematerialisation /Repurchase of Existing Scrips

- 10% of total remat request confirmed or 10 whichever is higher with a maximum cap of 25.

The above sample may also be used for verifying the issue of repurchase/ redemption warrant in case of Repurchase of units.

(In case if the RRF's and related documents are not available for verification due to various reasons like storage at different place, etc the IA may check the live cases subject to the samples stated above. Such fact of verification should be stated in the report to CDSL)

Remat Rejection

100% if total remat request rejected are less than five, else five samples.

Note:

1. For checking the rejection cases, the IA may select the rejected cases from the samples selected for checking RRF's (to the extent possible). This would enable to understand the process flow followed for rematerialisation.

Chapter 4 – Methodology for Inspection

The area wise methodology to be followed by the IA for inspection of various areas of the checklist is outlined in ensuing modules.

Preamble:

The process of dematerialization at the Issuer/ RTA's end inter alia entails receiving the electronic demat request from the front end software as well as receiving the Demat Request Form (DRF) from the DP along with the physical share certificates, verifying the details entered in DRF with the request received electronically from CDSL, the correctness of the ISIN of the securities to be dematerialized, verifying the sub status of the BO, verifying the signature of the BO, recording the details in the back-office registers, verifying the transposition cum demat requests, etc.

The documents are scrutinized at the Issuer/ RTA's end and the BO's demat account is credited with equivalent number of shares. However, if the request is rejected the certificate is sent back to the DP under the relevant system-defined *REJECTION CODE*.

As per *Regulation 38, of SEBI (Depositories and Participants) Regulations, 1996* it is mandatory for the participant to maintain records of securities so dematerialized.

The IA may refer to **Chapter 1** of the **RTA Operating Instruction** to become familiar about various requirements laid down by CDSL while processing the dematerialization requests for existing scrips.

Methodology

I. Demat / Destatemanisation/ Remat / Restatemanisation / Redemption Requests Processing

The clause wise methodology, which would assist the IA in verification, is as follows:

- 1.1 Whether there is a proper procedure in place for inward of requests received from DPs?
- 1.2 Whether adequate controls exists over requests received and their respective status?

Verification Methodology:

As per CDSL *Operating Instruction 1.4.3*, RTA is required to capture the date of receipt of Share Certificates and DRF, which are, received from the DP against the DRN in the front-end system i.e. CDAS. Further as per *Operating Instruction 1.4.7*, RTA should record the date of receipt of physical documents in “*Register of certificates dematerialized*” to be maintained in format as specified in *Annexure 1.1* of aforesaid Operating Instruction. The IA needs to check whether the register maintained by issuer/RTA in the same format as prescribed by the aforesaid operating instruction.

The Issuer/RTA, on receipt of certificates and Demat Request Form (DRF) from DP shall capture the date of receipt of the same against the DRN in the front-end system and will confirm to CDSL electronically through its front-end system. The date of receipt should also be mentioned on the physical copy of the DRF. IA should verify that date of receipt mentioned on the request matches with the receipt date entered in CDAS.

Issuer/RTA verifies whether the DRN, BO ID, ISIN, quantity, number of certificates, etc. as mentioned on the DRF and as received electronically from CDSL, tally. The Issuer/RTA also verifies the signatures of BOs on the DRF with the signatures recorded by him. The Issuer/RTA also checks whether the DRF is authorised by the DP. In case of any discrepancy, the Issuer/RTA must reject the request under the relevant system-defined REJECTION CODE.

A well-defined procedure for inward of DRF received from the DP is of utmost importance to ensure that no request is lost while in the custody of the Issuer/ RTA. Also, all the requests are timely processed without causing any delay for dematerialisation.

The IA may understand the process followed by the RTA for inwarding the DRF data in the BOS as well as in the *Register of certificates dematerialised* by inquiring or discussion with the concerned officials. It is very crucial to have a track of the DRF received at the counter till the time it is processed. For **e.g.:** An inward number may be allotted to the request at the counter which is entered in the inward register on receipt of the request, the same inward number is used in the system of the Issuer/ RTA during the processing so as to track the entire trail of the request and the status of the request in the process of dematerialisation at any point of time.

The IA may for some random dates count check whether the number of DRF's received at the counter tallies with that entered in the "*Register of certificates dematerialised*". Also, the IA should cross check whether all such DRF's are entered in the front-end software.

The IA should also check whether there is any back log in maintaining the records, from the date of receipt of the DRF from the DP. For this, the IA may examine live data of such DRF's received during the inspection period. This may be verified by a count check of the DRFs received on the sample dates at the Inward counter with the count check of such records in the "*Register of certificates dematerialised* and CDAS.

The IA should get the list of demat requests received by the Issuer/ RTA by spooling the **Report RT21**. The IA may select the samples as given in the **Chapter 3 – Sample Selection** and should check on the basis of the following points:

- records maintained at the Inward Counter of the Issuer/ RTA about the physical documents received from the DP,;
- the date of receipt of physical documents as required to be recorded in the "*Register of Certificates Dematerialized*" against the DRN;
- the date of receipt of physical documents as captured in CDAS/ BOS. The same can be verified from the **RT21 Report**.

IA should check the following in case of Remat/Debate/Restate.

On receipt of the physical documents such as RRF, the Issuer/RTA electronically confirms receipt of the request.

As per CDSL operating instructions 2.5. , the Issuer/RTA records the details in its back-office Register maintained either physically or in electronic form in case of rematerialisation.

The Issuer/RTA records the name of the BO as the Registered Owner(s) of the rematerialized securities and debit CDSL in the Register of Members of the Issuer for the rematerialized quantity.

The Issuer/RTA checks the RRF for the details with the electronic intimation received. If the same does not tally, the Issuer/RTA may reject the remat request by selecting the appropriate reason code from the system-defined list of rejection codes

IA should check that the Issuer/RTA prints the physical certificates in the name(s) of Registered Owner(s). The new certificate numbers, distinctive numbers and denomination of each certificate are noted against the folio of the Registered Owner.

The Issuer/RTA completes the above process within a period of 30 days, from the date of receipt of the Remat Request form and reconciles its back-office records with the CDSL records for pending rematerialisation. Further, IA should check that the Issuer/RTA maintains record of the Folio Numbers, Distinctive Numbers and Certificate Numbers issued by it against any remat request.

AMC / RTAs are required to devise appropriate controls over the processing activities to ensure that only MF units represented by SoA and genuinely issued by the AMC, are considered for destatmentization.

As per RTA O.I. 9.3 AMC / RTAs are advised to ensure that the electronic Destat request received from the DP is identified by unique Destat Request Number (DRN).

AMC / RTA on receipt of SoA and Destat Request Form (DRF) shall capture the date of receipt of the same and against the DRN in the CDAS system, verify the documents with the DRN setup in the system and shall confirm the same if in order. AMC / RTA can

access the data after the Destat request is set-up by the DP. Each Destat request is identified by unique Destat Request Number (DRN).

As per RTA O.I. 9.4.2.3, AMC / RTA can access the data after the Restat request is set-up by the DP. Each Restat request is identified by unique Restatementization Request Number (RRN). AMC / RTA on receipt of restatementization Request Form (RRF) shall capture the date of receipt of the same and against the RRN in the CDAS system, verify the MF-RRF with the RRN setup in the system and shall confirm the same if in order.

Any adverse observations or process lapse emerging out of verification w.r.t. delay or omission in inwards of Demat requests needs to be brought in the report.

1.3 Whether serial number and receipt date stamp has been affixed on all the requests received by the Issuer/RTA?

Verification Methodology:

As per **CDSL Operating Instruction 1.4.3**, the Issuer/ RTA on receipt of the physical copies of the DRF should, besides recording in the “*Register of Certificates Dematerialized*”, also needs to state the date of receipt of such documents on the face of the DRF.

Accordingly, the IA should verify from the samples selected, whether the date of receipt is stated on the DRF/Destate request form/RRF/Restate request form. The IA may apply the same sampling and procedure as stated in of **Question 1.1**.

Any observation emerging out the verification carried out needs to be brought in the report along with substantial observations.

1.4 Whether all the requests received during the audit period have been processed within the stipulated time frame?

➤ Completion of all the process of demat within a period of 15 days:

As per **CDSL Operating Instruction 1.4.18**, the Issuer/ RTA should complete the whole process of dematerialisation commencing from receipt of demat requests along with all the relevant documents till the acceptance or rejection of the said request within the stipulated time of fifteen (15) days.

The IA may check for the sample demat request as stated in the ***Sample Selection***, the inward register maintained at the counter to know the date of receipt of the demat request and check the same with the “*Register of dematerialisation*” and the date stated in CDAS (refer ***Report RT21***) for completion of the demat setup to ensure that the aforementioned process is completed within the stipulated time.

The IA may in addition to verification of the sample documents, may also inspect on random basis, the live cases in the stage of processing by the Issuer/ RTA. In such cases the IA may note the date of receipt of the requests and the date of processing to give him an overview of the average time taken by the Issuer/ RTA in handling the demat requests.

IA should verify that the RTA/Issuer follows the deadlines in respect of Destate/Restate as mentioned

AMC / RTA shall complete processing of the conversion/destate request within 15 days of receiving the physical documents or as specified by CDSL from time to time.

AMC / RTA shall complete processing of the Restat request within 21 days from the date of set-up. If the details in the MF - RRF tally with the records with them, the AMC / RTA shall initiate the process of Restatementization by confirming the Restat request.

The IA may report the instances of observations emerging from the aforesaid verification substantiated by various details like date of receipt of demat requests, confirmation date, etc.

- 1.5 Whether date of receipt mentioned on the requests matches with the receipt date entered in CDAS?**
- 1.6 Whether request forms received were duly authorized by the Depository participant and completely filled?**

Refer Point no.1.1&1.2 above for point nos.1.5 &1.6

1.7 Whether any requests have been confirmed where there exists any prohibitory order, stop transfer, attachment order, or disputed title on the said securities or MF units?

IA may inquire with the RTA/Issuer for such any prohibitory order, stop transfer, attachment order, or disputed title on the said securities or MF units and obtain declaration/management comments and rely on the same. However, IA may ask for general correspondence file and go through the same to know any order was issued against RTA/Issuer or any prohibitory order, stop transfer, attachment order, or disputed title on the said securities or MF units. If so, based on the order whether any action was taken needs to be verified.

Any observation emerging out the verification carried out needs to be brought in the report along with substantial observations.

(II) Dematerialisation of Existing Scrips

2.1 On receipt of physical security certificates, the validity of the certificate is verified by RTA

Validity of the Certificate:

As per CDSL *Operating Instruction 1.4.1*, RTAs are advised to devise appropriate controls over the processing of DRF requests to ensure that only “*clean stock*” i.e. share certificates, which were genuinely issued by the Company, are dematerialized.

A certificate is believed to be invalid due to attributes such as,

- If the distinctive number appearing on the certificate is not the same as the number mentioned against the shareholder as per the records of the Issuer.
- If the name(s) as stated in the share certificate do not match with that as in the records of the Issuer/ RTA.
- If the share certificates have been already recorded as lost, stolen or forged certificates.
- If the share have been defunct in the records of the company.
- If duplicates share certificates have already been issued and the same is updated in the Issuer/ RTA’s records.

Genuineness of share certificate can be judged by verifying the following:

- Folio Number;
- Share certificate Number;
- Distinctive Number of shares
- Name of the owner and the order of the names in case of joint holders;
- Company’s common seal.

All these details are available with RTA in the Register of members. The IA needs to verify whether there is a procedure to check genuineness of share certificate. For this, the IA needs to verify the live process carried out by RTA to ensure that only “*clean stock*” is dematerialized.

The IA may get the list of share certificates held as lost, stolen or forged and get the list of demat requests setup with the acceptance or rejection details from the **Report RT21** to check whether any share certificates which are declared as invalid due to reason of lost, stolen and forged are accepted for dematerialization.

The IA may select the sample from the **RT21 Report** for verification as stated in **Chapter 3 – Sample Selection** and check the DRF considering the aforementioned points. However, in some cases as the physical certificates may be destroyed after the transaction or may be sent for archival as per the Issuer's policy, the IA may verify the demat requests and the share certificates received on the date of inspection as per the above mentioned verification methodology.

Controls which may have been instated by the Issuer/ RTA:

The IA may also check the controls in place by entering a dummy transaction of shares which are declared as defunct or lost, stolen or forged.

For e.g.: the system may give a pop-up message on entering the share certificate number if the same is declared as defunct, lost, stolen or forged.

Any discrepancy observed needs to be stated in the report along with substantial instances along with the relevant details. The IA needs to report control lapses observed in the BOS

2.2 On receipt of physical security certificates, the RTA verifies that the application for demat has been made by the person(s) whose name is recorded in the Register of member / debenture holders as the case may be.

The right to dematerialize the shares is available only to the registered owner of the shares. This right to dematerialize can be exercised by the owner either by himself or through a designated person appointed under an agreement of Power of Attorney herein referred as POA holder.

An Issuer/ RTA on receipt of dematerialization request have to ensure whether the applicant is the registered owner of such shares/ debentures.

The Issuer/ RTA may maintain the *Register of the members* either in its Software or a spreadsheet on standalone basis or in a physical form.

The IA should check on sample basis the name of the applicant stated in the below mentioned documents:

- Dematerialization Request Form (DRF);
- Name recorded in “*Register of members*” maintained with RTA.

In addition, the IA can confirm this by inspecting the live process carried out at the place of RTA/ Issuer.

Critical Areas:

- In case if the BO’s name on the DRF is not matching with that on the certificate, (e.g. the holder of the securities may have opened the depository account in the name of *Sushil Ramesh Shah* but his name on the certificate may appear as *Sushil R. Shah* or *S.R. Shah*, etc.) the IA should ensure that the said demat request is not rejected by the RTA/ Issuer since as per SEBI Directives - Dematerialization request could be processed by the Issuer/ RTA, if the BO’s signature on the DRF matches with his specimen signatures available on records with the DP.

For this, the IA needs to check the DRF for demat requests rejected under reason of “*Name mismatch*” from CDAS and to verify whether they are rejected inspite of the signature of BO matching with specimen signatures available on records with the DP.

- There may be mismatch in name as appearing on share certificate and name on DRF due to change in name, especially in case of change of name of married female BO, in such case BO is required to provide Marriage certificate / copy of extract of Gazette notification along with demat request.

For this, the IA should from the sample, so selected for verification of the DRF should check whether the affidavit to that effect is being collected from the BO before processing of the DRF.

- Request for dematerialization can also be made by a POA holder whether registered or not with Issuer/ RTA.
 - **Registered POA:** The IA may get the list of POA registered with the Issuer/ RTA and check, whether any demat request is received from such BO. The IA may check whether the request is not rejected on the grounds of name mismatch or likewise.

- **Unregistered POA:** In case of demat request sent through POA which are not registered with the Issuer/ RTA, the IA may check whether the demat request is accompanied with the copy of “*POA – BO Agreement*” and the signature on the DRF matches with that on the “*POA – BO Agreement*”.

The IA should check whether the signature on the agreement matches with that on the DRF.

- The IA may note that if the POA is appointed only for a specified period, then in such case the POA holder cannot execute the DRF after the expiry of his tenure. If the registration is for a specified period, the IA needs to scrupulously check whether in such case, the application is given only by unexpired POA holders. IA can also verify whether period for which POA is given is tracked by the back office system.

Any discrepancy should be reported along with substantial instances to support the observation in the report.

2.3 Whether register of member (ROM) is updated on confirmation of demat requests?

Verification Methodology:

IA should verify that Issuers/RTAs have appropriate controls over the processing activities to ensure that only “clean stock” i.e. share certificates, which were genuinely issued by the Issuer, are dematerialised. Once a demat request is received physically, the Issuer/RTA records the details in its back-office register and maintains either in physical or electronic form needs to be verified. On receipt of both electronic and physical request, Issuer/RTA initiates processing of the Dematerialisation request.

IA should check that the Issuer/RTA performs an additional check against its internal database of lost, stolen or forged certificates and include these indicators against the respective data record.

As per *CDSL Operating Instruction 1.4.11*, RTA shall process the valid certificates/ documents for dematerialization by transferring the registered ownership of securities to the name of Central Depository Services (India) Limited, and update its Register of Members.

The Issuer/ RTA needs to take care to ensure that the credit is given to only those securities which are not under any dispute or those which are not declared as fake or forged or stolen. It means that the RTA should take utmost care to ensure that only valid certificates are being processed for dematerialization and only in such cases the ownership of the dematerialized securities should be transferred in the name of CDSL.

The IA needs to check on sample basis (*the sample considered here may be the same which is selected for checking the validity of the certificates so as to check the further processing of the demat request*) whether the demat request which are in the status of “verified” and which are checked for validity are transferred in the name of *Central Depository Services (India) Limited*. For verifying this, the IA may check the **Report RT21** as generated for the inspection period and note on random basis the accepted quantity of demat request. The IA should then check the entry in the *Register of Members* as passed by the Issuer/ RTA to transfer the accepted demat quantity in CDSL Account. The IA should ensure that the accepted quantity as on a particular date is equal to the quantity in the JV passed in the BOs to transfer the quantity to CDSL Account.

The IA may also refer to the reconciliation done for the sample dates by the Issuer/ RTA related to number of demat requests accepted and the quantity of securities credited to CDSL Account and debited to the respective BO Account.

Any observation arising out of the verification should be reported to CDSL along with data to substantiate the reporting.

2.4 On receipt of physical security certificates, whether the RTA tallies the details mentioned in the DRF with details received electronically?

DRN is generated from the CDAS once the DP does the setup in CDAS. After the demat request is uploaded on CDSL, it is electronically sent to the concerned Issuer/RTA. As per CDSL *Operating Instruction 1.4.9*, Issuer/ RTA needs to verify whether details mentioned on Physical DRF such as DRN, BO ID, ISIN, quantity of securities, number of certificates, etc. match with the set up in CDAS.

For selection of sample, the IA needs to obtain **Report RT21** generated from CDAS for Demat requests setup.

The IA may verify the following attributes for the samples selected.

- Demat Request Number (DRN)s
- BO ID
- BO Name
- ISIN
- Demat Quantity requested

Any Observation emerging out of verification needs to be mentioned in the report along with the details of instances.

2.5 On receipt of physical security certificates, whether the RTA tallies the signature of the applicant(s) with the signature recorded by the RTA? (That the signature of the applicants tallies with the signature recorded by the Issuer/ RTA.)

One of the important aspects to be checked in validating the dematerialization process is verification of the signature of the shareholder to authenticate the holder of such certificate.

The IA may select the DRF received on sample basis for the inspection period and verify whether signature appearing on DRF under “*Signature with RTA*” heading is matching with that recorded by Issuer/ RTA.

It may be pertinent to note that the person verifying the signature on the share certificate should affix “***Signature Verified***” on the DRF stating that the signature is verified and it matches with that in the records of the RTA. Accordingly, the IA should check from the selected sample whether such stamp or the signature is present on the demat request.

Any adverse observation emerging out of verification needs to be brought out in the report.

2.6 Whether Certificates received with requests were marked with words "Surrendered for Demat, DP ID, DP name and client ID mentioned on the certificate?"

IA should verify on sample basis that Issuer/RTA checks whether the stamp "surrendered for demat" along with DP Name, DP ID and BOID on the certificates, is affixed properly by the DPs for the requests submitted. IA should on sample basis verify the demat requests to know whether Issuer/RTA verifies the DRN, BO ID, ISIN, quantity, number of certificates, etc. as mentioned on the DRF and as received electronically from CDSL and the same tally. The Issuer/RTA also verifies the signatures of BOs on the DRF with the signatures recorded by him. The Issuer/RTA also checks whether the DRF is authorised by the DP.

In case of any discrepancy, the Issuer/RTA must reject the request under the relevant system-defined REJECTION CODE.

2.7 Whether RTA has created/updated the Database for Distinctive numbers of equity shares for dematerialization of listed companies and the same is verified at the time of dematerialization?

As per SEBI circular dated CIR/MRD/DP/ 10 /2015 dated June 05, 2015 on DN Database. RTAs were instructed to use the DN database interface provided by depositories for Capturing / updating the DN information on a continuous basis while processing dematerialization /rematerialization requests confirmation, executing corporate action, etc. RTAs were also expected to take all necessary steps to update the database and reconcile any mismatches with Stock Exchanges by 31st December, 2015. IA should verify that RTA/Issuer has updated DN database. In case of any lapse observed should be pointed in the report.

Also refer point no.14.14 of this manual.

2.8 Whether all procedures for demat as prescribed in RTA Operating Instructions are complied with?

Verification Methodology:

IA should select the Demat Requests received from the DP on sample basis as mentioned in the **Chapter 3**. The procedure which IA needs to follow is outlined below.

Authorization of DRF:

As the investor (Beneficial Owner) submits the DRF through his DP, the DP needs to check the DRF for the details filled in it and it needs to certify that the BO holds a beneficial account with the authorizing DP.

The authorization of the DRF from the DP can be confirmed by checking the following aspects:

- DP Stamp;
- Signature of DP Official.

On receipt of the demat request along with the share certificate from the BO, the DP checks the details as mentioned on the DRF with the share certificate and defaces and mutilates the share certificate after ensuring the correctness of the demat request as per the DP records.

The signature of the DP official along with the DP stamp signifies that all the aforesaid activities have been duly carried out by the DP and also the DP has duly verified the correctness of the request with the share certificate.

The IA should select the sample as stated in **Chapter 3 – Sample Selection** for verification purpose. However, in case of non-availability of the documents due to reasons like to destruction of the physical share certificates on dematerialization, the IA may select the sample out of the records available or live data at the RTA/ Issuer's end. However such fact needs to be clearly stated in the report.

2.9 Whether RTA ensures that demat requests are honored within a period of 15 days from the date of physical receipt of the DRF?

Refer to Point No. I.4 of the checklist above

2.10 Whether Issuer/RTA has accepted the demat request, wherein physical security certificate(s) have got lost in transit, and carried out the dematerialization on the basis of indemnity and proof of dispatch furnished by the Participant as per prescribed guidelines

➤ **Procedure in case of securities lost in transit:**

CDSL vide *Operating Instruction 1.5* has given the procedure to be followed by the Issuer/ RTA in case of securities are lost in transit.

According to the aforementioned procedure, the Issuer/ RTA may assume that the securities are lost in transit if the same are not received at the Issuer/ RTA's end within a period of thirty (30) days from the date of generation of DRN.

2.11 In case of transposition cum demat, whether proper internal controls are implemented to ensure that the transposition form contains those combinations of names in which the BO account has been opened?

The Issuer/RTA, on receipt of certificates and Demat Request Form (DRF) from the DP shall capture the date of receipt of the same against the DRN in the front-end system and will confirm to CDSL electronically through its front-end system. In case of transposition cum-dematerialisation, the Issuer/RTA shall receive the Transposition Request Form along with the DRF. The date of receipt should also be mentioned on the physical copy of the DRF.

IA should verify that in case of transposition-cum-dematerialisation, the Issuer/RTA ensures that the transposition form contains those combination of names in which the BO account has been opened and BO has submitted Transposition Request Form along with the DRF.

2.12 Whether RTA maintains proper procedure and controls on demat requests received and their respective status?

Issuers/RTAs have been advised to devise appropriate controls over the processing activities to ensure that only “clean stock” i.e. share certificates, which were genuinely issued by the Issuer, are dematerialised.

The RTA must ensure the request has been generated for the correct ISIN, where the Issuer has issued more than one security and has more than one ISIN.

Controls to be maintained for verification of data by Issuer/RTA.

- ☐ Match all the details on the DRF with the master data in the Register of Members of the Issuer.
- ☐ Name Matching: SEBI, in its meeting held on December 17, 1998, directed that in case the BO's name on the DRF is not matching with that on the certificate, the Dematerialisation request could be accepted by the DP and processed by the Issuer/RTA, if the BO's signature on the DRF matches with his specimen signatures available on records with the DP.
- ☐ The Issuer/RTA will perform an additional check against its internal database of lost, stolen or forged certificates and include these indicators against the respective data record.
- ☐ The Issuer/RTA can capture the date of receipt of physical certificates & the DRF into the CDSL database, this activity can be done without the verification process. However, the status of the request remains as Setup only. (The capturing of date of receipt will not be construed as receipt of all documents /certificates by the Issuer/RTA.
- ☐ Acceptance / Rejection at the verification stage is entered into the CDSL system after the above steps have been performed. Appropriate reason / code of rejection must be specified against the quantity under mismatch, so as to enable the DPs to identify the error.
- ☐ In case of multiple reasons for rejection, each such rejection reason should be recorded.

- ☐ Issuers/RTAs should reject certificates carrying any changes in BO ID (contained in the defacing stamp) on certificates, if they are not authenticated by the DP.
- ☐ Issuers/RTAs should check whether the stamp “surrendered for demat” along with DP Name, DP ID and BOID on the certificates, is affixed properly.
- ☐ After all the details are verified, the Issuer/RTA shall “Verify” the DRN in the CDSL system. Part verification and part rejection is also permitted.

Any adverse observation emerging out of verification needs to be brought out in the report.

2.13 Whether RTA gives credit of demat securities for which listing approval has been received from the relevant stock exchange/s?

In respect of any fresh allotment of securities, SEBI, vide Press Release ref no. PR 16/2001 dated 17-01-2001 and SEBI Circular no. 35 dated September 29, 2003, has instructed that the Issuer shall submit an In-principle Listing Approval to the Depositories. The depositories will only thereafter enable dematerialisation of such securities. However, the credit will be given as Temp ISIN and only after final listing approval, it will be allowed for trading or transfers.

IA should therefore verify that RTA gives credit of fresh allotments only after receipt of stock exchange approval.

2.14 In case of RTA handling only the electronic connectivity, does the physical RTA inform the receipt of documents related to DRF to the electronic RTA? (Note: Electronic RTA should confirm or reject only on the basis of intimation received from physical RTA)

Verification Methodology:

In normal cases, an Issuer should have only one RTA for one ISIN however in exceptional cases like below the Issuer may have more than one RTA for the same ISIN:

- Activities related to physical shares being maintained by the Issuer Company internally while the activities related to Demat share is being outsourced to RTA;
- Activities related to physical shares being outsourced to one RTA i.e. physical RTA while the demat portion being handled by another RTA i.e. Electronic RTA.

In such cases where there is more than one RTA, the shareholding details needs to be updated in the register maintained at the physical RTA's place and also at the electronic RTA's place on conversion of shares from physical form to Demat form.

Since the records of physical shares are maintained at physical RTA and DRFs are also received by the physical RTA while the electronic setup which is required after the dematerialization to be done is at the electronically connected RTA, the process of extinguishment of the shareholders name from the physical records and crediting CDSL's name at the electronic RTA's place has to be defined and followed properly and meticulously.

As a process, the physical RTA, on receipt of demat request, needs to check it for the adequacy and then send the same with the acceptance / rejection decision to the electronic RTA. It may be noted that along with the decision to accept or reject the demat request, all other details of the request like name of the holder(s), total physical quantity, lock in period (if any) and the lock in release date of the shares needs to be communicated to the electronic RTA. This is of utmost importance as such data is required in creating the electronic set up in CDAS.

The electronic RTA would accept or reject the request only on the basis of the decision communicated by the physical RTA.

It may also be noted that even if the physical RTA and electronic RTA are separate, the timeline of fifteen (15) days is combined for physical and electronic RTA.

Following is the methodology to be followed by the IA for verification at:

Electronically connected RTA:

The IA should enquire about the presence of the joint RTA from the officials of the auditee RTA. The IA should then on sample basis, select dematerialization requests received for such ISIN and check

- Whether the decision as communicated by the physical RTA has been prudently followed by the electronic RTA.
- Whether the details given by the physical RTA in the communication, is properly entered in the system.
- Whether the process of creating the setup in CDAS is done within reasonable time after receipt of the decision of the physical RTA. The IA may check the receipt date stated on the face of the DRF by the physical RTA's to calculate the time period for processing of the demat request where copy of DRF is received from Physical RTA. However in other cases, the date of receipt of the demat request at the physical RTA's end is not practically possible then the IA may consider the date of receipt of the decision from physical RTA and check whether the time taken is not beyond fifteen (15) days at least from the date of receipt from physical RTA.

The IA should stress on audit trails in the form of official documents received from the Physical RTA and in case if the correspondence could not be substantiated by the inspecting RTA, the same should be clearly stated in the report to CDSL.

Any adverse observation emerging out of verification needs to be brought out in the report.

Physical RTA:

In case of physical RTA, the process of dematerialization begins on receipt of the demat request from the DP. The RTA would check the demat request and the attached certificates. On completion of the verification, the RTA would then communicate the decision of acceptance/ rejection as the case may be, to the electronic RTA along with all the details required for creating set up in CDAS.

For the sample selected for verification, IA needs to verify,

- Whether the DRF are properly verified and initialed by the physical RTA.
- Whether the holdings are extinguished by the Physical RTA for the number of shares accepted for dematerialization.

- Whether the decision is communicated to the electronic RTA along with all the details as stated in the above section. For this, the IA may refer to the acknowledgement copy maintained by the RTA.

Since the combined deadline for both the RTA's, for processing of the demat request is fifteen (15) days, the physical RTA should communicate the decision to the electronic RTA within such period so as to give the electronic RTA reasonable time to process the request within the stipulated time period.

In case of rejection of the demat request, as per *CDSL Operating Instruction 1.4.13*, the RTA is required to send the demat request along with all the documents to the DP within seven (7) working days, In such case, the IA should check whether the documents are sent to the DP within the stipulated time as per the methodology stated in **Question 1.7**. Also, the IA should verify whether the physical RTA has informed the electronic RTA about the decision along with the appropriate reason of rejection of the demat request within reasonable time not beyond seven (7) days.

In case any audit trail is not available like the demat requests or the communication done with the electronic RTA, the same should be reported to CDSL in the Inspection Report.

➤ **2.15 Procedure for withdrawal of demat request:**

CDSL vide *Operating Instruction 1.6* have laid down the procedure in case of withdrawal of demat request by the BO.

The IA may refer the aforesaid Operating Instruction for knowing the CDSL prescribed procedure.

The IA may get the **RT21 Report** from Issuer/ RTA in excel and apply filter on Rejection reason as "*BO Request*" to get the cases rejected due to withdrawal of demat request by the BO;

The IA should then check for the underlying cases in the above report and verify whether the letter is received from the BO in the format prescribed by CDSL in **Annexure 1.3** along with the letter duly authorised by the respective DP i.e. it is signed and stamped by the DP.

III. Dematerialisation Rejections

3.1 Whether the RTA rejects the demat requests electronically by capturing the appropriate rejection reason if certificates / documents are not received within 30 days from the date of electronic request logged into the system by the DPs?

As per RTA O.I. 1.4.19, in cases where the physical certificates have not been received by the Issuer/RTA even after 30 days (or as stipulated by CDSL from time to time) from the date of generation of the DRN, the RTA may reject the demat request under appropriate pre-defined system rejection reason.

IA should verify on sample basis that RTA rejects the demat requests electronically by capturing the appropriate rejection reason, if physical certificates are not received within 30 days from the date of electronic request logged into the system by the DPs.

3.2 In case of rejection, whether RTA returns the certificates relating to those securities to the DP in all cases and proof of dispatch maintained?

IA should verify the demat requests rejected by the Issuer/RTA to know that the RTA/Issuer returns the rejected certificates to the concerned DP along with rejection memo. (In case of forged certificates, the RTA shall not return the certificates to the DP, but shall send only the rejection letter). The rejection will be treated as complete only after the Issuer/RTA has mailed the rejection letter along with respective certificates and the relevant documents (e.g. copy of court order, etc.) to the DP, within seven (7) days of rejection of the request. Also it should be verified that RTA maintains the proof of despatch.

The methodology is briefed as below:

- Get the **Report RT21** generated from CDAS for the inspection period;
- Check the dispatch register and the proof of dispatch like the courier receipt, Registered Post receipt in case of registered post, etc.

The IA may also observe the process followed by the Issuer/ RTA during the conduct of the inspection to check whether the dispatched documents contain the

certificates of the rejected securities which are dispatched within prescribed time limit.

Any lapse observed, for not maintaining any record of rejections, certificates not returned and kept with RTA only without any reason or returns the same beyond 7 days stipulated regulation, should be reported in the report.

3.3 Whether the rejection memo contains DP ID, client ID, rejection code and rejection reason?

3.4 Whether rejection reason as mentioned in memo matches with rejection reason entered in CDAS system?

3.5 Whether the demat requests are rejected based on the correct rejection reason codes?

Verification Methodology:

During the verification stage of the dematerialization of securities, the Issuer/ RTA may reject the demat request due to various reasons like mismatch in details in the electronic form and that given in the physical documents, non-receipt of all the required supporting within stipulated time, etc.

In all the rejections, it is necessary to convey the reason(s) to the DP so as to identify the errors and to rectify or avoid the same in future. To have standardized error recognition throughout the DPs, CDSL has incorporated various possible categories of rejection reasons in CDAS and allotted code to each of these reasons. It needs to be emphasized here that the reason to be conveyed has to be accurate with the case of rejection. The same needs to be conveyed by RTA to the DP along with rejection memo which contains DP ID, client ID, rejection code and rejection reason.

For verifying, the IA may retrieve the **RT21 Report** generated from CDAS to get the list of demat requests rejected. The IA needs to check in CDSL system, from the sample selected whether the code of rejection is specified against the quantity, which is rejected.

Besides this, the IA needs, on sample basis, to take the cases which are rejected by checking the demat requests. Since the rejected cases are sent back to the DP for rectification or for any other reason, the IA may choose to select sample live cases which are rejected but are yet to be sent to the DP to check whether the rejection

reasons as recorded electronically are same on the basis of which the DRFs are rejected. It is pertinent to mention that in case of multiple reasons for rejections, all the reasons needs to be stated. In case of any discrepancy, the Issuer/RTA must reject the request under the relevant system-defined REJECTION CODE.

It may be noted that the rejection reason if contains “***Others – (Code 99)***” as one option for rejecting the requests the IA should ensure whether any rejection which could have any allocated reason is not put under “***Others***” category.

Any observation emerging out of the verification should be stated in the report along with sufficient backing.

3.6 Whether in case of rejection of demat requests, all the formalities as prescribed in Operating Instruction for Issuer/ RTA are being complied with?

Verification Methodology:

As per *CDSL Operating Instruction 1.4.13*, RTA is required to consider following aspects if demat request is rejected:-

- The Issuer/ RTA shall return the rejected certificates to the concerned DP and the rejection will be treated as complete only after RTA has mailed the rejection letter along with respective certificates and the relevant documents within seven (7) days of rejection of the request.
- Appropriate reason / code of rejection must be specified against the quantity under mismatch in CDSL system, so as to enable the DPs to identify the error. In case of multiple reasons for rejection, each such rejection should be recorded.

The IA may get the ***RT21 Report*** generated from CDAS to get the list of demat requests rejected. The IA may then check the proof of dispatch to ensure whether the Issuer/ RTA have dispatched the rejection letter within the stipulated period of seven days to the DP.

The IA needs to check in CDSL system, from the sample selected whether code of rejection is specified against the quantity, which is rejected i.e. if there is any rejection, then column/field for rejection reason should not be blank.

The IA should also check by calculating the date of receipt of physical request and that of Confirmation from the *Register of Members* to ensure that the rejection is done within the stipulated time of thirty days.

The IA may report the instances of delay in processing of the rejected demat requests as well as other observations emerging from the above check.

IV. Destatementization

- 4.1 On receipt of Statement of Account (SOA), whether the RTA tallies the details mentioned in the DRF with details received electronically?**
- 4.2 Whether received date mentioned on the DRF matches with received date entered in the system?**
- 4.3 Whether procedure for destat as prescribed in RTA Operating Instructions is complied with?**
- 4.4 Whether RTA ensures that destat requests are honoured within a period of 15 days from the date of physical receipt of the DRF?**

IA should verify whether AMC/RTA follows the following procedure as prescribed in RTA O.I. chapter 9.

Procedure:

- Destatementization [Destat] 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 accounts with CDSL.
- AMC / RTA on receipt of SoA and Destat Request Form (DRF) shall capture the date of receipt of the same and against the DRN in the CDAS system, verify the documents with the DRN setup in the system and shall confirm that received date mentioned on the DRF matches with received date entered in the system if in order
- AMC / RTAs are advised to devise appropriate controls over the processing activities to ensure that only MF units represented by SoA, which were genuinely issued by the AMC, are considered for Destatementization.
- AMC / RTA can access the data after the Destat request is set-up by the DP. Each Destat request is identified by unique Destat Request Number (DRN). AMC / RTA on receipt of SoA and Destat Request Form (DRF) shall capture the date of receipt of the same and against the DRN in the CDAS system,

verify the documents with the DRN setup in the system and shall confirm the same if in order.

- In cases where Destat request setup 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 cases where Destat request setup is for a specific quantity (entire or partial) AMC /RTA shall confirm the maximum balance up to the set up quantity / partial balance with respect to setup quantity in the respective folio with them or reject the balance upto the setup quantity/ partial balance with respect to setup quantity in the respective folio with them.
- AMC / RTA shall complete processing of the conversion request within 15 days of receiving the physical documents or as specified by CDSL from time to time.
- In case of mismatch of the quantity for units represented by the SoA 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. AMC / RTA can accept part quantity of units and reject the remaining quantity. However, AMC / RTA cannot defer part confirmation/ rejection to a future date.
- MF-DRF and SoA shall be returned to the DP under a Rejection Memo, specifying the reason for rejection within 7 days of rejection of request.
- AMC / RTA shall complete processing of the conversion request within 15 days of receiving the physical documents or as specified by CDSL from time to time.

- If SoA is lost in transit or misplaced, AMC/RTA may reject the MF-DRF and intimate the DPs. In such case DPs will be required to setup new MF-DRF based on a fresh / copy of SoA submitted by the BO.

The IA may report the instances of delay in processing of the destat requests as well as other observations emerging from the above check.

4.5 Whether any transposition cum destat request is processed by RTA? (Refer O.I. 9.3.3)

Transposition is a facility, which enables investors to transpose names of the joint holders in desired order along with the process of dematerialisation of certificates. Transposition-cum-dematerialisation facilitates dematerialisation of certificates held in different order through one demat account. However, as per *Operating Instruction 9.3.3* the transposition-cum destatementization is not allowed.

IA while verifying the Destat procedure should check whether transposition-cum destatementization is processed by the RTA, if so, the same should be pointed out as non-compliance by the IA.

V. Destatementization Rejections

5.1 In case of rejection, whether RTA returns the MF units represented by SoA to the DP in all cases and proof of dispatch maintained?

AMC / RTAs are advised to devise appropriate controls over the processing activities to ensure that only MF units represented by SoA, which were genuinely issued by the AMC, are considered for Destatementization.

IA should verify that AMC/RTA rejects the Destat request setup only if the following process is not followed.

1. In cases where Destat request setup 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.
2. In cases where Destat request setup is for a specific quantity (entire or partial) AMC / RTA shall confirm the maximum balance up to the set up quantity / partial balance with respect to setup quantity in the respective folio with them or reject the balance upto the setup quantity/ partial balance with respect to setup quantity in the respective folio with them.
3. In case of mismatch of the quantity for units represented by the SoA 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.
4. For other types of mismatches, AMC / RTA may reject the DRN. AMC / RTA can accept part quantity of units and reject the remaining quantity.

However, AMC / RTA cannot defer part confirmation/ rejection to a future date. MF-DRF and SoA shall be returned to the DP under a Rejection Memo, specifying the reason for rejection within 7 days of rejection of request

5.2 Whether rejection code and rejection reason as mentioned in the rejection memo matches with that captured in the CDAS?

- In case of mismatch of the quantity for units represented by the SoA 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. AMC / RTA can accept part quantity of units and reject the remaining quantity. However, AMC / RTA cannot defer part confirmation/ rejection to a future date.
- MF-DRF and SoA shall be returned to the DP under a Rejection Memo, specifying the reason for rejection within 7 days of rejection of request.

In view of the above, rejection process, IA needs to verify that AMC/RTA selects the correct reason code and reason for any rejection. Any lapse observed should pointed out in the report.

5.3 Whether the rejection code and rejection reason selected by RTA/Issuer for rejecting the request was correct?

The IA needs, on sample basis, to take the cases which are rejected by checking the deat requests. Since the rejected cases are sent back to the DP for rectification or for any other reason, the IA may choose to select sample live cases which are rejected but are yet to be sent to the DP to check whether the rejection reasons as recorded electronically are same on the basis of which the DRFs are rejected. It is pertinent to mention that in case of multiple reasons for

rejections, all the reasons needs to be stated. In case of any discrepancy, the Issuer/RTA must reject the request under the relevant system-defined REJECTION CODE.

It may be noted that the rejection reason if contains “*Others – (Code 99)*” as one option for rejecting the requests the IA should ensure whether any rejection which could have any allocated reason is not put under “*Others*” category.

Any observation emerging out of the verification should be stated in the report along with sufficient backing.

5.4 Whether the RTA rejects the destat requests electronically by capturing the appropriate rejection reason?

Destatementization [Destat] 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 accounts with CDSL.

1. IA should verify that AMC / RTAs have appropriate controls over the processing activities to ensure that only MF units represented by SoA, which were genuinely issued by the AMC, are considered for Destatmentization. Rejections are done by AMC / RTAs only as mentioned below need to be verified by IA:
2. In cases where Destat request setup 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.
3. In cases where Destat request setup is for a specific quantity (entire or partial) AMC /RTA shall confirm the maximum balance up to the set up quantity / partial balance with respect to setup quantity in the respective folio with them or reject the balance upto the setup quantity/ partial balance with respect to setup quantity in the respective folio with them.
4. In case of mismatch of the quantity for units represented by the SoA 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.

5. For other types of mismatches, AMC / RTA may reject the DRN. AMC / RTA can accept part quantity of units and reject the remaining quantity. However, AMC / RTA cannot defer part confirmation/ rejection to a future date.
6. MF-DRF and SoA shall be returned to the DP under a Rejection Memo, specifying the reason for rejection within 7 days of rejection of request.
7. If SoA is lost in transit or misplaced, AMC/RTA may reject the MF-DRF and intimate the DPs. In such case DPs will be required to setup new MF-DRF based on a fresh / copy of SoA submitted by the BO.

However, the AMC /RTAs may process destat request received electronically through CDAS without receipt of MF- DRF and SOA as per the procedure given in RTA O.I. 9.3.11.

Any adverse observation should be pointed out in the report.

5.5 In case of rejection of destat requests, whether all the formalities as prescribed in Operating Instruction for Issuer / RTA are complied with?

AMC / RTAs have been advised to devise appropriate controls over the processing activities to ensure that only MF units represented by SoA, which were genuinely issued by the AMC, are considered for Destatmentization. IA should verify whether AMC/RTA follows the procedure for rejections as mentioned below.

In cases where Destat request setup 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 cases where Destat request setup is for a specific quantity (entire or partial) AMC /RTA shall confirm the maximum balance up to the set up quantity / partial balance with respect to setup quantity in the respective folio with them or reject the balance upto the setup quantity/ partial balance with respect to setup quantity in the respective folio with them.

In case of mismatch of the quantity for units represented by the SoA 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. AMC / RTA can accept part quantity of units and reject the remaining quantity. However, AMC / RTA cannot defer part confirmation/ rejection to a future date.

In case of any deviation noted, the same should be pointed out in the report.

VI – Rematerialisation /Repurchase of Existing Scrips

Rematerialization of securities entails conversion of the securities from electronic mode to physical form i.e. in the form of share certificates.

The process of rematerialization at the Issuer/ RTA's end, involves receiving the remat request from the front end software as well as receiving the **Remat Request Form (RRF)** in physical format from the DP, verifying the details entered in RRF with the request received electronically from CDSL and recording either electronically in the BOS or in the physical form various details like Name of holder(s), Address, Permanent Account Number, Bank Account Number, Quantity rematerialized, Signature, Folio Number. The process of rematerialisation ends on recording the Beneficial Owner's name in the *Register of Members* and printing of the Share Certificate.

As per *Regulation 38, of SEBI (Depositories and Participants) Regulations, 1996* it is mandatory for the participant to maintain records of securities so rematerialized. Therefore it is necessary for RTAs to maintain the records pertaining to remat requests processed by it.

To convert the electronic balances of the BO into physical form, CDSL has laid down guidelines in its Operating Instructions. IA may refer to *Chapter 2* of the *CDSL Operating Instruction* to become familiar about various requirements laid down by CDSL w.r.t. Rematerialization of existing scrips.

Methodology

VI. Rematerialisation

6.1 Whether RTA checks that the remat request made by the BO has been authorized by the DP?

Verification Methodology:

As the RRF is submitted by the applicant (Beneficial Owner) through his DP, the DP needs to check the RRF for the details filled in it and it also needs to authorize that the securities which BO has applied for rematerialisation is held by BO in electronic form with the DP.

Below mentioned attributes can be considered by the Issuer/ RTA as authorization by the DP:

- Stamp containing the name of the DP;
- Signature of DP official.

The stamp affixed and signature of the DP officials signifies that the various details mentioned in the remat request are checked and found correct and shares which BO applied for rematerialisation are held by BO in electronic form with the DP.

The IA may get the **(Report RT50)** generated for the inspection period and select sample as stated in **Chapter 3** for aforesaid verification. The IA should then verify the RRF's to check whether the RRFs are being properly authorized on the basis of the aforementioned points.

Any adverse observations emerging out of verification needs to be reported by IA supported by the instances.

6.2 Whether the procedure for acceptance & rejection of remat request as prescribed in Operating Instructions for Issuer/ RTA is complied with?

Verification Methodology:

CDSL in its *Operating Instruction - Chapter 2* has stated the procedure to be followed by Issuer/ RTA for rematerialisation of securities.

According to the said *CDSL Operating Instruction*, various activities are required to be carried out by the Issuer/ RTA for validating the remat request. The Issuer/ RTA on receipt of the electronic request for rematerialisation and the physical remat request, needs to check the details of against each other for consistency in the data.

The IA may while checking the process of Rematerialization select, on sample basis, the cases of remat processed in the inspection period from the **Report RT50** as per the sample plan laid down in **Chapter 3** of this manual. The IA should check for the sample - remat requests to ensure the accuracy of the RTA for accepting the remat requests. This is to judge the adequacy of the verification procedure carried out by the Issuer/ RTA for Rematerialization.

Following fields are expected to be checked by the IA to judge the process carried out by the Issuer/ RTA in verifying the Remat request:

- RRN;
- DP ID;
- BO ID;
- First holder Name;
- Second holder Name;
- Third holder Name;
- ISIN;
- Type of security;
- Quantity;
- Status of Security (Free/ Lock in);
- Authorization of the remat request by the DP (as explained in **Question 3.1**)

The IA should also check the documents submitted by the DP along with the physical remat request. The documentary requirements have been stated in *Annexure 2.2* to *CDSL Operating Instruction*.

Any discrepancy while acceptance / rejection of remat request should be stated in the Inspection Report substantiated by adequate observations.

6.3 Whether RTA/ Issuer records the name of the BO as the Registered Owner(s) of the rematerialized securities and debits CDSL in the Register of Members of the Issuer for the rematerialized quantity?

Verification Methodology:

In case of holdings in electronic form, the Issuer/ RTA have to record CDSL as the Registered Owner for that security. However, if the holdings are in physical form, the same are registered in the name of the person whose name is inscribed on the share certificate.

Whenever the Issuer/ RTA receive a remat request, the Issuer/ RTA has to enter the name of the applicant in lieu of CDSL on acceptance and processing of the remat request i.e. the applicants name should be credited in the register of members and CDSL's holding in dematerialized form should be debited for the accepted securities.

The IA may get the list of rematerialization request processed by RTA from the *“Register of Certificates Rematerialized”* and **Report RT50**. The same should be checked in the Register of members maintained in BOS, to ensure that the entry is in the name of the respective applicant as recorded in the aforesaid register and not in the name of CDSL.

The IA may also count check for sample dates the number of accepted rematerialized request and compare the holdings of CDSL with the previous days CDSL holding to ensure whether the same has been reduced by the sum of the rematerialized quantity accepted on such sample dates. For this, the IA may also refer to the daily reconciliation process carried out by the Issuer/ RTA to ensure that transfers are properly accounted and total balance of shares (i.e. shares in demat form+ shares in physical form) tallies.

Any adverse observations emerging out of verification needs to be reported by IA supported by the instances.

6.4 Whether the RTA / Issuer has sent the printed certificates directly to the Registered Owner at the address mentioned on the RRF?

Verification Methodology:

After acceptance of the remat request, the Issuer/ RTA has to print the share certificates in the name of the respective BO and dispatch the same to them on the address mentioned in the remat setup created by the DP (Refer *CDSL Operating Instruction 2.5.12 and 2.5.14*).

The IA may select the sample remat cases from the ***RT50 Report*** as stated in **Chapter 3** and check the dispatch records maintained by the dispatch department of the Issuer/ RTA.

The IA may check the address as stated in the sample dispatch records with the Issuer/ RTA with that given in the ***RT50 Report***.

It may again be noted that the physical share certificates are to be sent directly to the shareholder's place of correspondence as stated in the remat set up created by the DP.

Any adverse observations emerging out of verification needs to be reported by IA supported by the instances.

6.5 Whether the RTA / Issuer has issued the repurchase / redemption warrant in case of Repurchase of units?

Verification Methodology:

Redemption or repurchase may arise in case of mutual fund units or debt securities. In such cases, the RTA/ Issuer needs to extinguish the demat holding and issue repurchase/ redemption warrant or redemption / repurchase proceeds as informed by the Issuer of such securities.

The IA may select sample of such cases from ***RT50 Report***. The IA may then refer to the ***BENPOS*** to identify any of the redemption cases which were under pledge or are normal cases without any claim on it.

The IA should check whether the holding has been extinguished and the redemption warrants/ cheques are dispatched. This may be verified for the sample cases by looking for POD or receipt of registered post.

Any instances of wrong dispatch in spite of pledge or non-dispatch for normal cases need to be reported to CDSL along with the details.

6.6 Whether the process of rematerialisation is completed within 30 days of the receipt of intimation of remat request from CDSL?

Verification Methodology:

In order to ensure timely completion of rematerialisation process, CDSL has laid down in its *Operating instruction – Chapter 2* as well as in *Bye laws 12.4* that the process of remat request should be completed within not more than 30 (thirty) days from the date of set up of the electronic request. It may be noted that the said process of rematerialisation commences from receipt of physical remat request and concludes on dispatch of the share certificates to the shareholder.

Accordingly, the IA should ensure whether the aforementioned process is completed within the stipulated time.

For this, the IA should get the list of remat requests accepted by the Issuer/ RTA from the **RT50 Report** and check the dispatch details like *Proof of Dispatch* on sample basis (refer **Chapter 3** for sample selection) to ensure that the same is completed in the stipulated time.

Any instances of delay or other observations emerging out of verification needs to be reported to CDSL along with the details like the RRN, delay (in number of days), etc.

6.7 Whether the back office records are reconciled with the CDSL records for pending remat?

On receipt of the physical documents such as RRF, the Issuer/RTA electronically confirms receipt of the request. The Issuer/RTA will record the details in its back-office Register maintained either physically or in electronic form. On confirmation of the Remat request, the corresponding accepted balance is reduced from that ISIN balance in the BO's Account. The Issuer/RTA shall record the name of the BO as the Registered

Owner(s) of the rematerialized securities and debit CDSL in the Register of Members of the Issuer for the rematerialised quantity.

IA needs to verify whether the Issuer/RTA shall reconcile its back-office records with the CDSL records for pending rematerialisation as per the following.

Remat Requests
Requests received both electronically and physically + Requests received only electronically but not received physically
Remat Pending
Remat quantity electronically received – Remat quantity accepted - Remat quantity rejected
Paid-up Capital
Electronic balances with CDSL + Electronic balances with the other Depository + Physical holdings by investors

Any lapse noted in improper reconciliation process may be reported in the report.

VII. Rematerialisation Rejections

7.1 Whether the rejection memo contains DP ID, client ID, rejection code and rejection reason?

Whether the rejection of remat requests are made with the correct rejection codes?

Verification Methodology:

On receipt of the Remat request from the DP, the Issuer/ RTA verifies the authenticity of the same to decide whether the request should be either processed further for conversion of electronic holding into physical certificates or reject the same.

Since the right of rejection remains solely with the Issuer/ RTA, it is of paramount importance that the reason for rejection of the remat request is properly stated for the convenience of the investor. This is to curb the superfluous rejections on the part of the Issuer / RTA.

CDSL has, with this regards, incorporated various possible reasons for rejections of the remat request in CDAS so as to facilitate easy operations and have a standardized database of the rejections at all DPs and RTAs.

The IA may select on random basis, the remat requests rejected during the inspection period with the help of **RT50 Report**. The IA may then check the Remat request on standalone basis to understand the reason for rejection and then check the corresponding rejection reason.

It may be noted that the rejection reason also contains “**Others**” as one option for rejecting the requests. In such cases, the IA should check for any case of rejection which has a separate code in CDAS but put under the **Others**” category.

Critical points:

Following are some important points, which the IA should take into consideration during the verification of Rematerialisation process:

- As per *CDSL Operating Instruction 2.5.17*, the Issuer/ RTA has to ensure that physical certificates issued after rematerialisation carry the metaphor “Issued on

Rematerialisation”. As share certificates may not be available for the historical period for verification, the IA may check the share certificates printed and pending for dispatch to the shareholder during the inspection period.

- The Issuer/ RTA has to dispatch the share certificate directly to the share holders place and not to the DP.
- In case of remat request received during the lock-in period of the securities, the share certificate should display the lock-in release date. The IA should check the remat request form received from the investor through its DP, to verify whether any request is received in its lock in period. The IA should then check whether the lock in period is retained or recorded in the records of the RTA. The IA should also during his verification check the live printing process or the share certificates already printed pending for dispatch to ensure whether the provision is stringently followed

Any discrepancy should be reported in the report along with adequate details to substantiate the observations.

- 7.2 Whether rejection memos have been sent in all cases of rejections within seven days of rejection?**
- 7.3 Whether rejection code and rejection reason as mentioned in the rejection memo matches with that captured in the CDAS by RTA/Issuer?**
- 7.4 Whether proof of despatch for request rejections has been properly maintained by the RTA/Issuer?**
- 7.5 Whether the RTA/Issuer is rejecting the request for valid reason?**

IA needs to verify whether the Issuer/RTA checks the RRF for the following details with the electronic intimation received. If the same does not tally, whether the Issuer/RTA rejects the remat request by selecting the appropriate reason code from the system-defined list of rejection codes.

- ☐ RRF Number
- ☐ RRN
- ☐ ISIN
- ☐ Name of the Issuer
- ☐ BO ID
- ☐ Quantity of securities to be rematerialised
- ☐ Name and Address of BO

□ Whether the BO has opted for a Jumbo Certificate or a marketable lot and the denomination of the certificates in case the BO has opted for a Jumbo lot.

The Issuer/RTA can reject the rematerialisation for any of the system-defined reasons.

During the verification stage of the rematerialisation of securities, the Issuer/ RTA may reject the remat request due to various reasons like mismatch in details in the electronic form and that given in the RRF etc.

In all the rejections, it is necessary to convey the reason(s) to the DP so as to identify the errors and to rectify or avoid the same in future. To have standardized error recognition throughout the DPs, CDSL has incorporated various possible categories of rejection reasons in CDAS and allotted code to each of these reasons. It needs to be emphasized here that the reason to be conveyed has to be accurate with the case of rejection. The same needs to be conveyed by RTA to the DP along with rejection memo which contains DP ID, client ID, rejection code and rejection reason.

For verifying, the IA may retrieve the **RT50 Report** generated from CDAS to get the list of demat requests rejected. The IA needs to check in CDSL system, from the sample selected whether the code of rejection is specified against the quantity, which is rejected.

Besides this, the IA needs, on sample basis, to take the cases which are rejected by checking the remat requests. Since the rejected cases are sent back to the DP for rectification or for any other reason, the IA may choose to select sample live cases which are rejected but are yet to be sent to the DP to check whether the rejection reasons as recorded electronically are same on the basis of which the DRFs are rejected. It is pertinent to mention that in case of multiple reasons for rejections, all the reasons needs to be stated. In case of any discrepancy, the Issuer/RTA must reject the request under the relevant system-defined REJECTION CODE.

It may be noted that the rejection reason if contains “**Others – (Code 99)**” as one option for rejecting the requests the IA should ensure whether any rejection which could have any allocated reason is not put under “**Others**” category.

Any observation emerging out of the verification should be stated in the report along with sufficient backing.

VIII Restatementization of Mutual Fund Units

8.1 Whether units at the time of restatementization have been issued to the person as per the pattern of holdings in the demat account with the participant from which such units are restatementized

Objectives

- Restatementization [Restat] is the process, which enables BOs to convert their Mutual Fund units in electronic form in their demat account into physical form i.e. Statement of Account (SoA).
- In the case of Repurchase / Redemption the Restat module is used to expunge (remove) the MF units and payment is made to the BOs by AMC / RTA in lieu of MF units expunged.

Procedure

- DPs set up Restat request in the CDSL system based on the Mutual Fund Restatementization Request Form (MF-RRF) submitted by the BO. Before set up, AMC/RTA should ensure that holding pattern matches as per demat account holder on Statement of Account (SoA).
- The AMC / RTA can access the Restat requests once the DP has set-up the request into the CDSL system. The related report is RTS4, RT50 and RT82.
- AMC / RTA can access the data after the Restat request is set-up by the DP. Each Restat request is identified by unique Restatementization Request Number (RRN). AMC / RTA on receipt of Restatementization Request Form (RRF) shall capture the date of receipt of the same and against the RRN in the CDAS system, verify the MF-RRF with the RRN setup in the system and shall confirm the same if in order.

- If the quantity of units does not match / tally with the electronic records of AMC / RTA, or, for any other types of mismatches, AMC / RTA may reject the Restat request by entering appropriate remark. AMC / RTA shall electronically intimate the rejection of MF-RRF and send the rejection letter to DP within 7 days.
- The AMC / RTA shall inter alia take the following particulars on record, based on the MF-RRF:
 - ☐ Name of the Holder(s)
 - ☐ Address
 - ☐ PAN
 - ☐ Bank Account Details
 - ☐ Name of the AMC/RTA
 - ☐ Quantity of MF Units Restatementized
 - ☐ In case a Power of Attorney (POA), POA holder cannot sign the MF-RRF, it has to be sign by the BO / BOs.
 - ☐ Any other details as may be required by the AMCs / RTA
- AMC / RTA shall complete processing of the Restat request within 21 days from the date of set-up.
- If the details in the MF - RRF tally with the records with them, the AMC / RTA shall initiate the process of Restatementization by confirming the Restat request.
- On confirmation of the Restat request, the corresponding accepted balance in the BO's account is reduced from that ISIN balance in the BO's Account.
- The AMC / RTA shall send the SoA in physical or electronic form directly to the Registered Owner.
- The AMC / RTA shall reconcile its back-office records with the CDSL records for pending Restat.
- Where the MF Units are under lock-in, the AMC / RTA shall ensure that the lock-in release date is mentioned in the Statement of Account:

i. In cases where Restat request is set up with the quantity as ‘ALL’ to Restat the entire holdings in BO’s demat account, AMC / RTA shall confirm / reject the entire balance [which is available at the time of confirmation] / partial balance in the respective folio with them to the extent of Maximum Allowable Quantity for that ISIN.

ii. In cases where Restat request is set up for a specific quantity (entire or partial) AMC / RTA shall:

- confirm upto the setup quantity / quantity in excess of setup quantity (to the extent of maximum allowable quantity) subject to the balance available in the demat account;
- reject the balance upto the setup quantity / partial balance with respect to setup quantity in the respective folio with them.

Repurchase / Redemption

- In cases where Repurchase/Redemption request is set up with the quantity as ‘ALL’ to Repurchase / Redeem the entire holdings in BO’s demat account, AMC / RTA shall confirm / reject the entire balance [which is available at the time of confirmation].

- In cases where Repurchase/Redemption request is set up for a specific quantity (entire or partial) AMC / RTA shall:

☐ confirm upto the setup quantity in excess of setup quantity (to the extent of maximum allowable quantity for that ISIN) subject to the balance available in the demat account;

☐ reject the balance upto the setup quantity / partial balance with respect to setup quantity in the respective folio with them.

- In cases where Repurchase / Redemption Request is set up by mentioning the ‘Amount’ instead of the MF units, RTA may confirm/reject the same by putting Quantity based on the NAV. In the case of Repurchase / Redemption confirmation, the payment is issued to the BO by the AMC/RTA in lieu of MF units held in electronic form.

IX Restatementization Rejections

- 9.1 Whether objection memos have been sent in all cases of rejections?
- 9.2 Whether objection code and objection reason as mentioned in the objection memo matches with that captured in the CDAS?
- 9.3 Whether the objection code and objection reason selected by RTA/Issuer for rejecting the request was correct?

The Issuer/RTA can reject the restate request for any of the system-defined reasons.

During the verification stage of the restate request, the Issuer/ RTA may reject the remat request due to various reasons like mismatch in details in the electronic form and that given in the RRF etc.

In all rejections, it is necessary to convey the reason(s) to the DP so as to identify the errors and to rectify or avoid the same in future. To have standardized error recognition throughout the DPs, CDSL has incorporated various possible categories of rejection reasons in CDAS and allotted code to each of these reasons. It needs to be emphasized here that the reason to be conveyed has to be accurate with the case of rejection. The same needs to be conveyed by RTA to the DP along with rejection memo which contains DP ID, client ID, rejection code and rejection reason.

For verifying, the IA may retrieve the **RT50 Report** generated from CDAS to get the list of demat requests rejected. The IA needs to check in CDSL system, from the sample selected whether the code of rejection is specified against the quantity, which is rejected.

Besides this, the IA needs, on sample basis, to take the cases which are rejected by checking the restat requests. Since the rejected cases are sent back to the DP for rectification or for any other reason, the IA may choose to select sample live cases which are rejected but are yet to be sent to the DP to check whether the rejection reasons as recorded electronically are same on the basis of which the RRFs are rejected. It is pertinent to mention that in case of multiple reasons for rejections, all the reasons needs to be stated. In case of any discrepancy, the AMC/RTA must reject the request under the relevant system-defined REJECTION CODE.

It may be noted that the rejection reason if contains “***Others – (Code 99)***” as one option for rejecting the requests the IA should ensure whether any rejection which could have any allocated reason is not put under “***Others***” category.

Any observation emerging out of the verification should be stated in the report along with sufficient backing.

X – IPO/ Corporate Action Processing

Preamble:

A **corporate action** is an event initiated by a public company that affects the securities (equity or debt) issued by the company.

A corporate action can be in either cash or non-cash Corporate Action. A Cash Corporate action would take the form of Cash Dividend (for equity securities) and Interest on Debentures (for debt securities). A non-cash corporate action would be the issue of additional securities in the form of Bonus Issue, Rights issue, issue of shares due to spin-off, consolidation, split, merger/ de-merger, acquisitions, amalgamation, conversion, etc. Some corporate actions such as name change have no direct financial impact on the shareholders.

It is very important to ensure that the right person entitled to such corporate action get the entitled holdings.

CDSL has in its *Operating Instruction – Chapter 4* laid down various procedures for the guidance of Issuer/ RTA for creating of the set up on the CDAS and other relevant activities about Corporate Action.

IA needs to refer captioned chapter of the *CDSL Operating Instruction* to become familiar about various procedures and requirements laid down by CDSL w.r.t. Corporate Action.

Methodology

X. IPO/Corporate Action Processing

The clause wise methodology for verification is given as below:

10.1 Whether RTA has taken appropriate action on unsuccessful allotments (Report RT38/RT98/RT24)?

(Whether proper controls are in place at the Issuer/ RTA office to ensure that allotment for mismatched items are made in physical form after trying to rectify the errors?)

Verification Methodology:

As per *CDSL Operating Instruction 4.3.10*, the allotment for mismatched items should be made in physical form. However the RTA also has an option to keep the non-issued securities in a separate escrow account especially meant for such purpose. It is of apex importance to have controls in place to ensure that the entitled holders for the corporate action are credited with the correct quantity of shares. This allotment may be either credited to the demat account or issued in physical form in case of Securities Corporate action.

In case of allotment of securities for corporate actions like IPO, FPO, Issue of Bonus Shares, Right Issue, etc. the Issuer/ RTA would primarily allot the quantity of entitlement to the BO demat account as per the records downloaded from CDAS. However, in various cases the corporate action allotment setup may be rejected by certain reasons compelling the Issuer/ RTA to either allot the mismatched items in physical form or keep the shares in a separate escrow account specially meant for the same to be credited to the BO's demat account on rectification of the shortcoming in the demat account.

The various instances wherein the Issuer/ RTA would not execute the corporate action on first instance in demat form are as illustrated below:

- Mismatch in BO account details;
- The proposed allotment credit is received before the activation of BO demat account;
- Closure of the BO account;
- OCB Demat account requiring regulatory approval which is yet to be obtained.

The IA needs to inquire with the RTA official about the processes followed by RTA for issuing physical shares for mismatched items and scrutinizes various controls put in place by the RTA to ensure that all mismatched items are issued in physical form and dispatched to the investors.

For verification, the IA needs to scroll through **Report RT38** (for File Corporate Action Success/ Failed Updates) and **Report RT98** (for Auto Corporate Action Success/ Failed Updates) to get the instances of failed cases.

Such list of mismatch items needs to be segregated into following:

- Subsequently issued in the Demat form after rectification (In such case name of CDSL should appear in the *Register of Members*)
- Issued in physical format (Dispatch proof may be checked);
- Maintain the non-issued securities in a separate escrow account;

The IA may refer to the *Register of Members* to check on sample basis whether the name of the BO is present in the register. Since, in case of physical allotment of shares the name of the individual investor should be recorded in the *Register of Members* absence of such name should be enquired to ensure that either CDSL account is credited because of demat allotment or the same is under process. Non- recording of the name of either the individual investor or CDSL implies a lapse in the controls. Over and above the mentioned check, the IA may also ensure dispatch of the physical share certificates for sample cases, by verifying the proof of dispatch of physical shares.

In case if the securities which could not be issued are kept in a separate escrow account by the RTA, the IA should verify the escrow account statement to check the quantity of the non-issued ISIN matches with the non-issued quantity. Further, whenever such shares are removed from escrow account and credited to the client account on change of BO details, IA needs to check whether proper trail is maintained for changes in BO master and credit to the concerned BO account.

Following calculation should make the verification easier for the IA:

Total number of shares to be issued under the corporate action =

Quantity issued in demat form on the first instance (*would be credited in the name of CDSL- the IA may check the total quantity against the name of CDSL in the BOS*) +

Quantity issued in Physical form to failed cases in corporate action (*would have been dispatched by Registered Post or courier, etc. The IA may check the acknowledgement copy or the POD*)

Quantity kept in the escrow account (*IA can check the escrow account statement*)

The Issuer/ RTA should check the Register of Investor Grievance with the Correspondence File maintained by the Issuer/ RTA containing the complaint letters, etc. to verify whether any complaint of non-receipt of physical shares is received.

The IA should check the date of resolving such complaints. If any complaints of the similar nature are received and resolved during the inspection period, the IA should scrutinize these complaints and reasons for such control lapse on the part of the RTA. The IA also needs to verify the action taken by the RTA to put in place the controls to avoid such mistakes and whether such mistakes are repeated.

Any adverse observation emerging out of verification needs to be specifically brought out in the report.

10.2 Whether the name of CDSL is recorded as “Registered owner of Securities” in the Register of Members for securities allotted in electronic form in CDSL?

Verification Methodology:

As per *CDSL Operating Instruction 3.3.26* in respect of all investors who have successfully given electronic credit, the Issuer/ RTA is required to enter the name of CDSL as registered owner of the securities, in the *Register of Members* of the Issuer.

The IA may get **(RT24) Report** from RTA, which contains the details of successful allotments as well as unsuccessful allotments. From this list, the IA has to check whether the quantity of successful allotment in electronic form matches with the quantity posted against CDSL in the “*Register of Members*”.

Any adverse observations emerging out of verification needs to be reported by IA.

- 10.3 In case of cash corporate action, whether bank account details of the investors as provided by CDSL are used?**
- 10.4 In case of cash corporate action, whether ECS facility (wherever available) is used for such distribution?**

Whether NECS/RTGS/NEFT facility is used for such distribution, wherever available?

Verification Methodology:

As per *SEBI Circular DCC/FITTCIR-3/2001* dated *October 15, 2001* and *SEBI Circular SEBI/MRD/DEP/Cir-3/06* dated *February 21, 2006*; Issuers/ RTAs have to compulsorily make payment of dividend through the ECS facility for the ECS notified centers. In case a BO has an account that is not in one of the notified ECS centers, the procedure of mailing physical warrants could be continued.

Holders availing ECS Scheme:

The IA should take the “*BEN_POS*” file received from CDSL - security wise on sample basis for the inspection period. The IA needs to check from the file and apply filter on the list of BO availing ECS facility. This list should then be compared with the list sent to the Bankers of the Issuer by the RTA and check whether the number of ECS holders and that as per the list send to the Banker matches.

Holders not availing ECS Scheme:

For the balance BOs who have not availed ECS scheme for Cash Corporate Action, the IA should obtain the list of BO containing the details like Beneficial Owner Number, Name of the holders to the account, Postal Address, Amount of dividend, etc. The IA then, should on random basis, verify some of the dispatch proof of the dividend warrant/ cheque to the holders not availing the ECS scheme, to ensure that the same is dispatched to the right holder at the given address.

The IA should also count check on the number of account holders as per the *BEN_POS* file received from CDSL with the total number of Beneficial owner details as per the list of BO send to the Banker and that for printing of Dividend warrants or Pay orders.

Any observations emerging out of verification needs to be brought out in the inspection report.

10.5 Whether proper controls are in place at the Issuer/ RTA office to ensure that allotments for mismatched items are made physical form after trying to rectify the errors?

In respect of records where the BO status matches with the status in the file, credit will be given to the respective BO account as per the details specified in the Allotment File. The records that do not match due to some reason e.g. – closure of BO account, etc. the mismatches along with the reasons will be reported to the Issuer/RTA. The Issuer/RTA may issue physical securities in such cases.

In respect of all investors who have been successfully given electronic credit, the Issuer/RTA enters the name of CDSL as the registered owner of the securities, in the Register of Members of the Issuer. Physical certificates are not printed for these cases. All the mismatched cases will not be processed and the same will be reported to the Issuer/RTA. The Issuer/RTA may allot the securities in the physical form.

However, the checklist point cannot be answered only as ‘YES/ NO’. This includes areas where the IA is expected to comment on the existence of system or mechanism implemented by Issuer/ RTA for compliance with CDSL rules and specifically bring out loop holes in system, if any.

Here it would be pertinent to note that the IA is not expected to comment on existence or non-existence of specific requests processed by the Issuer/ RTA during inspection period.

10.6 Whether reconciliation of its records i.e. whether total number of applicants in electronic mode = Total successful allottees (electronic credit + physical credit in respect of mismatch cases) + Applications rejected is done?

Verification Methodology:

As per *CDSL Operating Instruction 3.4.1*- Issuer/ RTA has to reconcile its records as to the Allotment made for the respective BOs with his back office records. *Total number of applicants in electronic mode* should be equal to *total successful allottees (electronic credit, physical credit in respect of mismatch cases) and application rejected*.

For sample IPOs handled by the RTA during inspection period, IA needs to obtain the reconciliation maintained by Issuer/RTA of the aforesaid records. To verify this, IA needs to retrieve report from the back office software w.r.t. total applications received, total allotments made in physical and demat form and total rejections made.

Any adverse observations emerging out of verification such as non-maintenance of reconciliation needs to be brought out in the report.

XI – Reconciliation of ISIN Balances

Preamble:

Reconciliation is a process of “*establishing cordial relations between two things or getting two things to correspond.*” This process is of utmost importance in RTA operations as RTA maintains the records of share capital of the issuer and movement therein.

The holdings which are in the electronic form are recorded in the name of the depositories while the holdings in physical form are recorded in the name of the respective shareholders by the Issuer/ RTA in the *Register of Members*. These holdings change on daily basis either because of rematerialization of securities, dematerialization of securities, receipt of various corporate action, etc.

It is of paramount importance to record the transfers prudently in the account accurately and punctually. This makes the reconciliation process very imperative to ensure correctness of the entries posted. Also as per *Regulation 55 of SEBI (Depositories and Participants) Regulation, 1996*, - “*the issuer or its agent shall reconcile the records of dematerialized securities with all the securities issued by the issuer, on a daily basis*”. As per *CDSL Communiqué RTA 02* - “*Issuers/ RTAs are required to confirm that the ISIN balances as communicated by CDSL through the Reconciliation module, tallies with the back-office records maintained by them. Issuers/ RTAs are required to issue such confirmation explicitly through the Reconciliation module on a daily basis*”.

To enable the Issuer/ RTA to confirm the ISIN balances of CDSL and check the same with its back office records, CDSL has prescribed guidelines through its Operating Instructions.

The IA may refer to ***CDSL Operating Instruction – Chapter 5*** at the time of the Inspection.

Methodology

XI-Reconciliation of ISIN Balances

11.1 How the RTA is carrying out process of daily reconciliation?

☐ Manual

☐ Back Office software

It is merely an information on the process of daily reconciliation being done by Issuer/RTA. However, manual reconciliation cannot be considered a good process if the ISINs managed are on the higher side. It is advisable to have Back office with Issuer/RTA which can give easy way to carry out reconciliation. So that ISIN balance as communicated by CDSL through the Reconciliation module, tallies with the back-office records maintained by them on daily basis so that discrepancies, if any can be quickly identified and resolved. Hence, IA may guide the RTA accordingly.

11.2 Whether ISIN balances are reconciled on daily basis?

a) Whether Issuer/ RTA reconciles ISIN balances on daily basis.

Verification Methodology:

As per *CDSL Communiqué RT 02*, Issuers/ RTAs are required to ensure that the ISIN balance as communicated by CDSL through the Reconciliation module, tallies with the back-office records maintained by them on daily basis so that discrepancies, if any can be quickly identified and resolved.

The security balances of the Issuer held in dematerialized form with CDSL will be intimated to Issuer/ RTA at the end of the day by CDSL and the same will be used by Issuer/ RTA for the purpose of daily reconciliation.

IA first needs to check whether Issuer/RTA has maintained records of such reconciliation/Reconciliation register regularly on daily basis for inspection period. The IA needs to cross verify “*Reconciliation Register*” with *Reconciliation report* generated by CDSL for sample dates to identify whether there is any difference in balances as per CDSL report and as per Issuer/ RTA records. If there is any difference then whether reconciliation statement is prepared for that date and such difference is identified and trail has been maintained of the same.

The Issuer/ RTA may have various controls inbuilt in its BOS to perform reconciliation.

For e.g.: EOD Error Reports stating the reconciliation and difference if any.

As per *CDSL Operating Instruction 5.2.5* - the Issuer/ RTA are suggested to maintain a Register, for recording the reconciliation figures of each ISIN serviced by the Issuer/ RTA. The format of register is prescribed in *Annexure 5.1* of aforesaid Operating Instructions. This register can be maintained manually or electronically in back office system.

The IA should also check whether the *Reconciliation Register* as required to be maintained by the Issuer/ RTA is in the format given by CDSL and contains all the particulars stated by CDSL. The IA should also check whether the *Reconciliation Register* is updated on regular basis.

Any adverse observation emerging out of verification needs to be reported by IA along with the details.

11.3 Whether separate folios for NSDL & CDSL are maintained in back office?

11.4 Whether RTA verifies the securities held by CDSL in the books of the issuing company by reconciling the inter depository transactions on a daily basis?

Verification Methodology:

Most of the securities are held by shareholders are in electronic form. Such electronic records change due to various reasons like on-market pay in/ payouts, off-market transfers, rematerialisation, dematerialization, etc.

In case of transfer of shares, transferor and transferee can have demat account with different depositories. The on-market and the off market transfers from the demat account of a BO under one depository to demat account of another BO under another depository results into continuous change in the closing balance at the depository level. This stresses the need to reconcile the holdings on depository levels. Hence, it is advisable to maintain two separate folios for balances maintained in CDSL & NSDL.

As per *CDSL Operating Instruction 5.4.1* - “The Issuer/ RTA ensure that all Inter depository transactions have been given effect to, before confirming the ISIN balances to CDSL”.

For verifying this, the IA may get details of Inter depository transfer for sample dates from **RT09 Report**. The IA should then cross check the inter-depository transfers as stated by CDSL with the inter depository transfers as recorded in the books of Issuer/ RTA.

Besides this, IA also needs to check whether Issuer/RTA does the reconciliation regularly on daily basis. For this, IA needs to check whether Issuer/RTA has reconciliation mechanism in place and for sample dates check the reconciliation records maintained by Issuer/RTA. During the inspection also, IA can check the current reconciliation being done by the Issuer/RTA.

Any adverse observations such as non-maintenance of reconciliation, balances not reconciled etc. emerging out of verification needs to be reported by IA along with the details of such instances.

11.5 Whether RTA reconciles security balances of CDSL+NSDL+securities held in physical form with listed and issued capital of a company on daily basis?

This information shall be available per ISIN serviced by the Issuer/RTA. The Issuer/RTA has to verify the information with the back office records to ensure the following:

- ☐ Opening balance is the Confirmed Balance by the Issuer/RTA as of yesterday or last confirmation date.
- ☐ The Issuer/RTA must verify whether the Dematerialisation / Rematerialisation confirmed quantity is equal to the total quantity confirmed by the Issuer/RTA as of last EOD.
- ☐ Similarly, the Issuer/RTA must verify whether the Interdepository Transfer IN and OUT confirmed quantity is equal to the total quantity confirmed by the Issuer/RTA as of last EOD.
- ☐ In case there are any Corporate Action debits / credits before last EOD, the Issuer/ RTA has to verify the same for the quantities debited or credited to that ISIN.
- ☐ The Closing Balance for that ISIN should be equal to the Depository Folio maintained in the ROM (Register of Members) of the Issuer.

The Issuer/RTA has to explicitly confirm whether the ISIN balances tally.

If the Issuer/RTA confirms the same as YES, then he agrees to the figures given by CDSL and if he confirms negatively, then he has to enter his own figures individually in the CDSL front-end system for all the items given in the Reconciliation Screen.

In case there is any discrepancy in the balances, the Issuer/RTA must first identify where the difference has occurred and verify the same with the EOD reports for Dematerialisation and Rematerialisation generated at his end on last EOD, to confirm the same.

IA should derive the Issued, Subscribed and Paid Capital from the exchanges site ISIN wise and tally the same with the demat balances with CDSL, NSDL and Physical balances maintained by RTA/Issuer to verify whether the ISIN balances are reconciled.

Reconciliation between Issued Capital and summation of shares held in physical form, CDSL & NSDL system, IA needs to select at least 5 ISINs. Balances to be verified for three different dates i.e.

- Previous day of Inspection or Audit
- Quarter end date for which Reconciliation of Share capital Audit report is due and submitted by the Issuer Company.
- Date in between previous day of inspection/Audit and quarter end date.

IA should verify whether the Issuer/RTA confirms the same as YES, in case he agrees to the figures given by CDSL and if he confirms negatively, then he enters his own figures individually in the CDSL front-end system for all the items given in the Reconciliation Screen.

IA also needs to check that in case if there is any discrepancy in the balances, the Issuer/RTA first identifies where the difference has occurred and verifies the same with the EOD reports for Dematerialisation and Rematerialisation generated at his end on last EOD, to confirm the same. In case the discrepancy in the balances is due to some error on the part of the Issuer/RTA, the Issuer/RTA intimates CDSL, in writing, with regard to the reasons for the said discrepancy.

The IA should report any discrepancy observed either in performance of the reconciliations to be performed or in the communication to be done about the discrepancies in the reconciliations. Any delay in communication to CDSL also needs to be reported along with sufficient details to substantiate the observation.

11.6 Whether Issuer/ RTA maintains Register for recording all information/ Reconciliation figures for each ISIN on a daily basis? (Refer RTA O.I.5.5.2)

Verification Methodology:

As per *CDSL Communiqué RT 02*, Issuers/ RTAs are required to ensure that the ISIN balance as communicated by CDSL through the Reconciliation module, tallies with the back-office records maintained by them on daily basis so that discrepancies, if any can be quickly identified and resolved.

The security balances of the Issuer held in dematerialized form with CDSL will be intimated to Issuer/ RTA at the end of the day by CDSL and the same will be used by Issuer/ RTA for the purpose of daily reconciliation.

IA first needs to check whether Issuer/RTA has maintained records of such reconciliation/Reconciliation register regularly on daily basis for inspection period. The IA needs to cross verify “*Reconciliation Register*” with *Reconciliation report* generated by CDSL for sample dates to identify whether there is any difference in balances as per CDSL report and as per Issuer/ RTA records. If there is any difference then whether reconciliation statement is prepared for that date and such difference is identified and trail has been maintained of the same.

The Issuer/ RTA may have various controls inbuilt in its BOS to perform reconciliation.

For e.g.: EOD Error Reports stating the reconciliation and difference if any.

As per *CDSL Operating Instruction 5.2.5* - the Issuer/ RTA are suggested to maintain a Register, for recording the reconciliation figures of each ISIN serviced by the Issuer/ RTA. The format of register is prescribed in *Annexure 5.1* of aforesaid Operating Instructions. This register can be maintained manually or electronically in back office system.

11.7 In case of mismatch found during reconciliation, whether RTA immediately informs CDSL about the same?

Verification Methodology:

As per *CDSL Operating Instruction 5.4.5*, the Issuer/ RTA has to explicitly confirm to CDSL whether the ISIN balances with the Issuer/ RTA tallies with CDSL records.

For verifying this, the IA may consider the following points:

- The *Reconciliation Register* should be scrolled through to check of any difference in the balance as per CDSL and that as per the Issuer/ RTA.
- in case of any difference, the IA should check whether reconciliation statement is prepared and such difference is identified and trail has been maintained of the same.

In case the discrepancy in the balances is due to some error on the part of the Issuer/RTA, IA needs to check whether the Issuer/RTA has intimated the same CDSL, in writing, with regard to the reasons for the said discrepancy.

It may be noted that the difference in the reconciliation is very sensitive and should be informed to CDSL on an urgent basis.

The IA should report any discrepancy observed either in performance of the reconciliations to be performed or in the communication to be done about the discrepancies in the reconciliations. Any delay in communication to CDSL also needs to be reported along with sufficient details to substantiate the observation.

11.8 Whether RTA submits Reconciliation of Share Capital Audit Report (Quarterly) in case of any difference in issued, listed and the capital held by CDSL?

Verification Methodology:

- a) As per *SEBI Circular D&CC/FITTC/CIR-16/2002* and *CDSL Communiqué 54*, an Issuer is required to get a secretarial audit done which could be carried out either by a qualified Chartered Accountant or a Company Secretary for the purpose of reconciliation of the total admitted capital with both the depositories and the total Issued and listed capital.

It may be noted that the aforementioned requirement is primarily applicable to the Issuer Company and not the RTA. However, in case if the Issuer itself handles the RTA operations, the same may be verified by the IA.

According to above mentioned circular, the Issuers will be required to submit an audit report on the audit conducted on a quarterly basis to the stock exchanges where they are listed. Any difference observed in the admitted, issued and listed capital shall be immediately brought to the notice of SEBI and both the depositories by the stock exchanges.

The IA can check the acknowledgement copy of report submitted on quarterly basis to stock exchange during the Inspection period.

Any adverse observations such delay or non-submission of reports needs to be brought in the inspection report.

Methodology

XII. Investor Grievances

The methodology for verification of the various regulatory compliances is stated below:

- 12.1 Whether there is any system to record & redress all grievances of clients received?**
- 12.2 In case of any grievance received from the BO, whether the same is reported to CDSL through grievance report?**
- 12.3 Whether RTA informs the action taken for pending grievances received regarding non-receipt of non-cash corporate action?**
- 12.4 Whether quarterly investor grievance reports have been submitted to CDSL as per SEBI / CDSL guidelines within stipulated timelines?**

As per *Regulation 53B of SEBI (Depositories and Participants) Regulation 1996*, the Issuer or its agent is required to redress the grievances of beneficial owner within thirty (30) days of the date of receipt of complaints and inform CDSL about the number and nature of grievance redressed by it and the status of the grievance pending for redressal.

As per *CDSL Communiqué No. 136* Issuer / RTA is required to submit the quarterly report in the format prescribed in *Annexure B of aforesaid communiqué* giving the details of complaints received from the investors. Such report needs to be submitted within 10 days of the end of the quarter.

Accordingly, the IA should check whether the Issuer/ RTA have complied with the aforementioned communiqué. For this, the IA may consider the following points:

- Checking whether Investor Grievance Register is maintained and whether any complaints or grievance received are updated regularly;
- Checking of correspondence file maintained by RTA and tracking whether all the complaints received by RTA are promptly updated in the register and vice versa.
- Investor Grievance Register maintained by RTA should have following details so as to make it complete.

Date of receipt of compliant, name of BO, DP ID, nature of compliant, Action taken and date of response to BO.

- To check whether the details as submitted to CDSL are in the format as stated in Annexure B of the *Communiqué 136*.
- To check from the acknowledgement copy of the Grievance Report submitted to CDSL to ensure whether the same is submitted within the stipulated time of 10 days from the end of quarter.

Methodology:

XIII. System Areas

The clause wise methodology for verification of CDAS is explained below:

13.1 Whether physical access to client machine is restricted to authorized persons?

Number of persons authorised to access CDAS system

Verification Methodology:

It is very important to know the number of persons authorized to access CDAS to verify whether any unauthorized person uses CDAS.

For verifying this, the IA should verify the **login ID** created by Issuer/ RTA for the number of persons authorized to access the CDAS and rights given to those users. This can be verified by following the path in “**Database Administer Module**”.

Database Administration → DBA Functions (Menu bar) → Users → Users Information → Inquiry → User ID (double click on User ID)

It may also be noted that as per *CDSL Communiqué* needs to check the correct *Communique No.*, if compliance officers or any employee or any user leaves the DP organization their ‘**Login ID**’ should be immediately deactivated. However, one may find some login IDs of the employees who have already left organization which can get misutilized. For this, the IA should get the list of employees of the Issuer/ RTA and crosscheck it with the list of active login ID’s created in CDAS. The status of a particular Login ID can be known by typing the USER ID in the block provided for User ID and selecting “*Inquiry Option*”.

The IA should also verify whether there is any *impersonal ID* created by the Issuer/ RTA for carrying out any transactions through CDAS.

Any adverse observation emerging out of verification needs to be brought out in the inspection report along with the relevant details.

13.2 Whether Variable Access Rights is implemented in CDAS?

Is secrecy of passwords maintained at all levels?

Verification Methodology:

The IA needs to scrupulously watch the real time process carried out by the Issuer/ RTA personnel to examine whether there is any case of sharing of passwords or user ids between the employees. There is a common practice in various organizations to cite the User-ID and password on the computer node. This could be deemed as non-maintenance of secrecy in passwords. The IA can also check whether the user id or password of any employee absent on that particular day is being used. For this, the IA have to go through the attendance log and login usage trail generated from the system to check whether the login IDs of employee who was absent, is active on the day.

The IA may also check the Usage log generated from the system to check whether a Log-in ID is used on multiple work stations i.e. one log in ID used by more than one users at various operating systems.

Any adverse observation emerging out of verification needs to be brought out in the inspection report along with the relevant details.

13.3 There is no occasion of failure to establish connectivity with depository even through alternate means of communication?

AS per SEBI D&P Regulations 56, every issuer or its agent shall establish continuous electronic means of communication with the depository with which it has entered into an agreement.

If IA notices failure to establish connectivity with depository through alternate means of communication, the same should be pointed out as non-compliance and also obtain the management comments. The non-compliance attracts penalty as per RTA O.I. Annexure 7.1.

13.4 Whether single point connectivity for all the work related to share registry in terms of both physical and electronic is maintained as per SEBI circular no. D&CC/FITTC/Cir-15/2002 dated 27/12/2002?

AS per SEBI D&P Regulations 53A, all matters relating to transfer of securities, maintenance of records of holders of securities, handling of physical securities and establishing connectivity with the depositories shall be handled and maintained at a single point *i.e.* either in-house by the issuer or by a Share Transfer Agent registered with the Board.

Hence, all Issuer ISINs managed by RTA, Equity securities that are listed on any Stock Exchange(s) and admitted should have appointed Share Transfer Agent for electronic connectivity and also for handling of physical shares. If IA comes across listed Issuer ISINs who have not appointed for both physical and electronic connectivity, the same should be pointed in the report.

XIV. Other Areas

14.1 Whether the Issuer handling registry operations in-house has exceeded one lac limit of account holders and requires to be registered as Share transfer agent under RTA Regulation 2g (ii) as per SEBI requirement?

RTA Regulation 2g (ii), specifies that Issuer managing its ISIN in house as RTA and having 100000 folios or more needs to obtain SEBI registration as RTA. The IA should check whether Issuer has more than 1,00,000 folios, if so, it should be pointed out as non-compliance advising the Issuer to register with SEBI as intermediary as RTA.

14.2 Whether RTA operations are carried out after following all communiqués issued by CDSL/SEBI?

RTA operations are required to be carried out after following all communiques issued by CDSL/SEBI, RTA Operating Instructions of CDSL and RTA Regulations. Any non-compliance observed in activity carried out by RTA, it should be pointed out in the report indicating the flaw observed in any of the regulatory requirement mentioned above.

14.3 Whether all associated persons engaged in RTA activities are NISM-Series IIA certified? (as per SEBI notification dated 04-Sep-2009)

The IA should check whether all associated persons engaged in RTA operations as per SEBI notification dated 04-Sep-2009 are NISM-Series IIA certified. If not, the same should be pointed out as non-compliance in the report.

14.4 Whether the requirement of maintaining trained staff (as per RTA operating instruction chapter 8.2) is followed?

In order to empower RTA staff to have full knowledge of the depository system with a view to serve their clients better, the RTA should mandatorily maintain adequately trained staff with at least one person who has attended two day training programme conducted by CDSL and who holds certificate to that effect.

The IA should check whether at least one person who has attended two day training programme conducted by CDSL and who holds certificate to that effect. If not, the same should be pointed out as non-compliance.

14.5 Whether Issuer/RTA has processed requests for transfer of lock-in securities or securities held under suspended ISIN in case of account transfer and transmission? (Refer RTA communique 987).

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 demat account is within CDSL and the PAN(s) of source and target demat account are same and in the same sequence as per pattern of holding. On transfer of balances under pending Demat/ Remat / Destat / Restat in source demat account, the source DRNs/ RRNs 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.

In case of successful transfer a report will be generated at RTA's end for such transfer of securities balances lying under inactive ISIN / Pending Demat / Remat / Destat / Restat or under Lock-in status so that RTAs / Issuers are aware of such transactions being executed. Report will also contain details of source and target CDSL demat accounts. The file format of the said report is RTS6 which is generated at EOD. In case if no records are there, nil report will be generated for the day.

IA need to verify whether RTA/Issuer follows the process as mentioned above in case of Inactive or Lock-in status and balances which are under Pending Demat / Remat / Destat / Restat.

14.6 Whether change in details of Compliance Officer / Authorized Signatory / Office address in prescribed format is submitted to CDSL?

The IA can check that change in details of Compliance Officer / Authorized Signatory / Office address in prescribed format is submitted to CDSL as per Communique 658 dated April 19, 2011.

14.7 Whether the discrepancies and /or non-compliances observed during previous inspections / last two internal audit are rectified and /or complied with? (Please refer the non-compliance letter issued by CDSL)

The IA can refer the non-compliance letter issued by CDSL and check that the discrepancies and /or non-compliances observed during previous inspections / last two internal audit are rectified and /or complied with. If not, the same should be pointed out as non-compliance.

14.8 Whether RTA/ Issuer has placed last CDSL inspection report and corrective action taken before the meeting of its Board of Directors held on _____? (Same may be verified from the extract of the minutes of the Board Meeting)

RTA/ Issuer is required to place before the Board of Directors in its meeting the last CDSL/SEBI Inspection report along with the action taken report. The IA can check the same from the extract of minutes of the Board Meeting. Any non-compliance observed should be pointed out in the report.

14.9 Whether RTA/ Issuer has placed last CDSL internal audit report and corrective action before the meeting of its Board of Directors held on _____? (same may be verified from the extract of the minutes of the Board Meeting)

RTA/ Issuer is required to place before the Board of Directors in its meeting the last internal audit report along with the action taken report. The IA can check the same from the extract of minutes of the Board Meeting. Any non-compliance observed should be pointed out in the report.

14.10 Whether at least one person of internal auditors of DP conducting internal audit is NISM series IIA certified?

As per Notification under Regulation 3 of the Securities and Exchange Board of India (Certification of Associated Persons in the Securities Markets) Regulations, 2007 No. LAD-NRO/GN/ 2009-10/18/175577, has specified vide circular no. NISM/ Certification / Series- II-A: RTA-Corp/2009/3 dated August 3, 2009, “Series-II-A: Registrar to an Issue and Share Transfer Agent- Corporate Certification Examination” (hereinafter referred to as Series-II-A: RTA- Corp) for associated persons already engaged or employed or on being engaged or employed by a Registrar to an Issue or Share Transfer Agent under regulation 7 of the Securities and Exchange Board of India (Certification of Associated Persons in the Securities Markets) Regulations, 2007

(hereinafter referred to as “the Regulations”) for the purpose of performing any of the following activities, namely:-

- (a) Dealing or interacting with the investors or issuers;
- (b) Dealing, collecting or processing applications from the applicants;
- (c) Dealing with matters relating to corporate actions, refunds or redemptions, repurchase of securities;
- (d) Handling redressal of investors’ grievances;
- (e) Responsible for internal control and risk management;
- (f) Responsible for compliance of securities laws;
- (g) Maintenance of books and records pertaining to the above activities.

That an associated person engaged or employed or to be engaged or employed by a Registrar to an Issue or Share Transfer 2 Agent, the person should obtain NISM Series-II-A:

In view of the above, at least one person conducting internal audit of RTA/Issuer should pass NISM series IIA exam.

14.11 Whether the internal auditors are related party to the RTA?

Internal audit of RTA/Issuer should be conducted by an independent auditor who may be Chartered Accountant, ICWA or practicing Company Secretary. Further, he should not be interested party or related party i.e. he has no business relationship with the company/sharing profit of the company or related to any director of the company. Hence, before undertaking the assignment as an internal auditor, the auditor should ensure the same.

14.12 Whether Issuer / RTA has obtained requisite details of Promoters/ Promoter Group from the listed Issuers and uploaded the same in the prescribed format on the CDSL system?

Issuer / RTA required to obtain requisite details of Promoters/ Promoter Group from the listed Issuers and upload the same in the prescribed format on the CDSL system. The IA needs to check the same from records with Issuer/RTA. Any non-compliance observed should be pointed out in the report.

14.13 Whether the Issuer / RTA, in case of any change in Promoters / Promoter Group (i.e. for Addition, Modification or Deletion), obtained the approval of the stock exchange(s) on which the securities of company is / are listed and thereafter updated the same in CDSL system?

In case of any change in Promoters / Promoter Group (i.e. for Addition, Modification or Deletion), Issuer required to obtain the approval of the stock exchange(s) on which the securities of company is / are listed and thereafter Issuer/RTA to update the same in CDSL system. The IA needs to check the same from records with Issuer/RTA. Any non-compliance observed should be pointed out in the report.

14.14 Whether RTA is updating Distinctive Number (DN) information in respect of all physical share capital and overall DN range for dematerialised share capital for all listed companies in the manner prescribed by SEBI?

In order to ensure centralised record of all securities, including both physical and dematerialised shares, issued by the company and its reconciliation thereof, SEBI decided that the Depositories shall create and maintain a database of distinctive numbers (DN) of equity shares of listed companies with details of DN in respect of all physical shares and overall DN range for dematerialised shares.

The DN database shall make available, information in respect of issued capital, such as DN Range, number of equity shares issued, name of stock exchange where the shares are listed, date of in-principle listing / final trading approval / dealing permission, shares held in physical or demat form, date of allotment, shares dematerialized under temporary (frozen) ISIN (International Securities Identification Number) or Permanent (active) ISIN etc., at one place.

As mentioned in SEBI circular no. CIR/MRD/DP/ 10 /2015 dated June 05, 2015:

- Based on consultations with the Depositories and Stock Exchanges, the following guidelines were given by SEBI for the operationalisation of the DN database -

5.1. Instructions to the Depositories

5.1.1. The depositories shall create and maintain a database to capture DN in respect of all physical equity shares and overall DN range for dematerialised equity shares issued by listed companies.

5.1.2. The depositories shall provide an interface to the Stock Exchange, Issuers/RTAs for online updating and to the DPs for online enquiry. The same shall be released for live updates latest by September 30, 2015.

5.1.3. The database shall include the following information -

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

RTAs were instructed to use the DN database interface provided by depositories for capturing / updating the DN information on a continuous basis while processing dematerialization /rematerialisation requests confirmation, executing corporate action, etc.

Issuers/RTAs shall use the interface provided by the Depositories for the following:–

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

RTAs were also expected to take all necessary steps to update the database and reconcile any mismatches with Stock Exchanges by 31st December, 2015.

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

It is under consideration of CDSL restricting the processing of demat and remat confirmations for equity shares of companies listed on BSE and/or NSE and/ or MSEI, if the DN ranges are not available in the DN database.

If IA observes that RTAs are still confirming demat/remat requests without updating DN ranges even after a considerable period has elapsed from the deadline date declared by SEBI, the same should be pointed out as non-compliance.

Methodology

XV- Record Maintenance

15 Whether the following records are being kept in a manner that they can be retrieved at any time

All the records and written instructions received from DPs / BOs are required to be maintained for a minimum period of 5 years.

Verification Methodology:

As explained earlier in the preface of this Chapter, proper maintenance of records is of utmost importance not only to comply with the regulatory requirements but also to retrieve the records as early as possible to provide the investor with faster service.

The maintenance of various records is categorically explained as below:

15.1 Whether original DRFs, TRPF and RRFs are kept in a manner so that they can be retrieved at any time?

According to *Chapter 1 and 2 of CDSL Operating Instruction*, the original Demat Request Form, Transposition Request Forms and Remat Request Form should be stored safely by the Issuer/ RTA for a period of ten years.

The Issuer/ RTA are expected to devise such filing procedure so as to help them timely retrieval of documents whenever required without causing any delay.

Accordingly, the DRF, TRPF and RRF may be filed as per the type of the documents with a unique reference number for future retrieval easily.

e.g.: The Issuer/ RTA may allot an inward number to all the documents received at the counter and keep a record indexed by the inward number along with other details like cabinet number, etc.

In addition to preserving original documents the Issuer/RTA may also have a system of electronic record keeping by way of scanning of DRFs, RRFs and TRPFs and related documents to ensure speedy retrieval of data

The IA, on random basis, needs to verify whether captioned documents are properly scanned in the system w.r.t. completeness, visibility of details etc.

15.2 Whether Record of all the rejections sent by the Issuer / RTA along with all the necessary documents such as copies of Court orders, order of any tribunal etc. are maintained?

As per *Chapter 1 of CDSL operating Instructions*, the RTA is required to maintain a record of all the rejections sent by him along with all the necessary documents such as copies of Court orders, Order of any Tribunal, etc.

For verifying the aforesaid, the IA may take on random basis demat rejected cases with reasons like Court orders or order of tribunal and see to it whether the RTA is able to produce the relevant documents like the court order on asking for the same.

15.3 Whether Record of the Folio Nos., Distinctive Nos. and Certificate Nos. issued against any remat request is maintained by the Issuer / RTA?

As per *Chapter 2 of CDSL Operating Instruction*, the Issuer/ RTA shall maintain record of the Folio Numbers, Distinctive Numbers and Certificate Numbers issued by it against any remat request.

It may be noted that all the details as given in the question are recorded in the *Register of Members* as kept by the Issuer/ RTA. The IA may check the details in the *Register of Members* to ensure whether the aforementioned details are on the record.

The IA may also refer to Question 3.3 in this manual with respect to updation of the *Register of Members* on rematerialisation of the securities.

15.4 Whether all documents required for corporate action are maintained?

As per *Chapter 4 of CDSL Operating Instruction*, Issuer/ RTA are required to maintain below mentioned documents w.r.t. corporate action:

- Subscription forms in case of Rights Issue, etc.
- Bank reconciliation statements for non-cash corporate actions where subscription money / call money is received.
- Allotment details.

The IA may in this respect on sample basis verify whether the aforementioned documents have been maintained.

15.5 Whether there is a system to maintain all the records and written instructions received from DPs / BOs for a minimum period of 5 years?

Verification Methodology:

In this regard, IA should verify arrangements made by RTA for storage of such documents. The IA should verify whether RTA has a predefined time interval of sending old documents and correspondence to archive. In addition to this, IA should review whether records are maintained, for last 5 years or since the inception of RTA operations, as the case may be, for details of documents so sent for storage, date of dispatching the documents, Name and Initials of the senior official dispatching the same and details of location of the documents.

Any adverse observation w.r.t. non-maintenance or incompleteness of records needs to be brought out in the inspection report along with the relevant details.

Module XVI – Compliance with SEBI and CDSL Requirements

Preamble:

To ensure smooth working of the financial market and to protect the interests on the investors various regulations have been formulated by SEBI. CDSL, as a depository, needs to ensure whether the rules, regulations as stated by the regulators are being properly followed in the interest of the underlying investors. To be in sync with the regulatory norms, CDSL has laid down rules and regulations through its Byelaws and Operating Instructions. It also comes out with continuous updates and amendments through the Communiqués.

It is very crucial to ascertain whether the Issuer/ RTA registered with CDSL, carry on the business in line with the provisions of the Regulations and whether the conduct of the Issuer/ RTA is in the overall interest of the investors. This section of the checklist is inserted keeping in mind the aforesaid objective.

The IA should scroll through the SEBI regulations and CDSL Communiqués while dealing with the issues as elaborated in this module.

Module XVII– Centralized Depository Accounting System (CDAS)

Preamble:

Centralized Depository Accounting System (CDAS) is centralized database architecture which performs the major activities such as processing, storing and maintenance of data and backup. CDAS enables DPs of CDSL to provide online depository service to their Beneficial Owners irrespective of their geographical location. CDAS is software connected to provide a centralized database about the investors and provides for an interface between the Depository Participants and the RTA. CDAS acts as a communication window for the DP and the RTA to exchange information and provide for database for processing as per the client instructions.

Hence, it is imperative for the IA to ensure that Issuer/ RTA diligently follow all the norms and conditions prescribed by CDSL with respect to CDAS so as to facilitate smooth functioning of depository activities. CDAS being the main nexus between CDSL, its DP and the RTAs, non-working of the same may hamper the operations of not only the RTA but also the DP causing inconvenience to the end investors.

Are the reports etc. not required being deleted from system at pre-defined interval?

Verification Methodology:

As per *Communiqué* needs to check correct *communiqué* no., **gz report** files in the **Q:/ Reports** folder and corresponding business date folders present in **Q:/ Reports/ 1/ DPID** folder should be deleted manually from the hard disk after taking periodic backup.

It may be noted that deletion of the un-required information and the reports is very important as existence of the same would hamper the processing of the system in various ways.

e.g.: the speed of processing may get affected resulting in delays in processing of the client information, the updation or the system patch may not be properly loaded to update the system due to lack of space, etc.

The IA can inquire with DP official and also verify the captioned path to ascertain the time interval at which back up is taken and old files are deleted. This needs to be specifically mentioned in the inspection report.

XVIII– Scope of audit for records & documents maintained

Preamble:

In order to ensure a smooth and uninterrupted operations and to maintain trail of all the transactions executed, organization should have adequate documentation and record maintenance procedure.

These records need to be maintained by the Issuer/RTA in a manner which would facilitate their easy retrieval. The IA may ensure that the Issuer/RTA has appropriate filing system.

Attributes of proper filing:

A good filing system would be characterized by following aspects:

1. A predefined basis should be present for filing of documents on the basis of functions/activities and further on the basis of unique reference number for that particular activity.
e.g.: Filing the documents separately for dematerialization (i.e. function / activity wise) and further on the basis of inward number as allotted by the inward department.
2. The Files should be numbered in a continuous series depicting the Activity, period and series of unique reference no. allotted to documents contained in the file.
3. Maintenance of a log (preferably in soft form) giving details of File Serial Number, Details of documents contained in the file, Period to which the records in the file pertain to, Location of the file and such other columns as may be considered essential for internal references and easy retrieval.
4. The log so maintained should be updated regularly so that it serves the intended purpose.

5. Since data and documents pertaining to previous period would not be required on frequent basis, the Issuer/RTA should have a system of shifting documents pertaining old transactions so as to make place for the current documents in order to ensure that they are not tampered with, lost or soiled. A log should be maintained of the records archived.
6. Retrieval of the archived data/records should be with prior permission from a Senior Official and proper track needs to be maintained.

In light of captioned attributes of good filing system, IA should verify the system followed by Issuer/RTA for maintenance of records and documents.

Chapter 5 – Drafting of Report

Preamble:

The Inspection Report should be drafted in a manner that it provides sufficient insight into the RTA operations. An inspection report should be divided in 4 parts.

- Executive summary.
- Observations.
- Checklist.
- Annexure.

I. Executive Summary:

Executive summary needs to be prepared in a manner that would provide the distilled essence of the inspection. An executive summary should cover

1. Recommendations of the IA w.r.t. internal controls, procedures etc. if any;
2. Significant observations/ lapses observed during inspection;
3. Categorization of all adverse observations in High risk, Medium risk and Low risk
 - Repetitive procedural observations over three audit/inspection periods, observations with financial penalty would constitute High Risk. Lack of internal controls which may lead to financial loss would also constitute High Risk.
 - Observations with no financial penalty and lack of internal controls would constitute Medium risk.
 - One-off Manual Error would constitute Low risk.
4. The IA must state his overall view on the internal controls based on observations emerging from inspection.

II. Observations:

Observation part should cover,

a. **Specific area wise observations, if any:**

CDSL has split the checklist categorically in various areas of operations like Dematerialization of Existing Scrips, Dematerialization of new Issues, Rematerialization of Existing Scrips, Corporate Action, Reconciliation of ISIN balances, etc for area wise understanding and to have a complete overview of the area in verification.

IA should split the observations, area wise and give the reference of the clause of which the observation pertains to. Also, the observations attached should be in the same order as of the clause in the checklist.

Any other observation which cannot be directly mapped with the checklist should also be split area wise and should contain proper heading so as to relate it to the operational areas.

b. **The methodology and rationale of arriving at conclusion:**

- In case of checks requiring the IA to comment on the process followed by the Issuer/ RTA and to judge the adequacy of the mechanism incorporated by the Issuer/ RTA, the IA is expected not only to give his Comments in “YES/ NO” manner but also to state the process so followed by the Issuer/ RTA along with the controls in it. ***The IA should state the process even when the comment is affirmative.***
e.g.: In the clause where the CDSL has asked – Whether there is a procedure for inwarding of DRF received from the DP?, the IA should understand and state the procedure and the systems implemented by the Issuer/ RTA while inwarding the DRF along with the methodology followed by the IA to verify such check.
- Where particular question in checklist ask IA to comment upon the adequacy of the process and the system for particular transactions, the remarks should be given about the existence and adequacy of such system even though no such transactions were processed by Issuer/ RTA during inspection period. **The intention of CDSL in inserting such**

checks is to ascertain the system and the process for self sufficiency and adequacy so as to be in congruence with the best business practices and investor service. Thus, presence or absence of an instance cannot be used as a tool for verifying the existence or otherwise of such process or system respectively. The IA should check whether the Issuer/ RTA has adequate system in case if any instance related to the system arises in the near future.

c. In order to make inspection most effective and meaningful, IA should make a note of following points while drafting observations emerging out of verification:

- For each area of inspection the IA should offer his comment as ‘**Yes/ No/ N.A**’. For points to which the IA has commented as ‘N.A’, the reason for non applicability should be clearly stated in the remarks column.

- However certain points in the checklist cannot be answered only as ‘YES/ NO’. This includes areas where the IA is expected to comment on the existence of system or mechanism implemented by Issuer/ RTA for compliance with CDSL rules.

e.g.: Whether proper controls are in place at the Issuer/ RTA office to ensure that allotments for mismatched items are made physical form after trying to rectify the errors?

In such cases merely commenting as ‘Yes’ or ‘No’ would not serve the purpose. Hence, besides stating ‘yes’ or ‘no’ the IA will also have to explain the mechanism implemented by the Issuer/ RTA and specifically bring out loop holes in system, if any.

Here it would be pertinent to note that the IA is not expected to comment on existence or non existence of specific requests processed by the Issuer/ RTA during inspection period.

- Wherever the IA gives a negative comment, he should substantiate his contention with relevant instances evidencing non compliance, wherever the negative comment is based on the instances observed. He has to specifically state the number of instances of deviation in the checklist and also provide an annexure for list of such instances. The Annexure number reference should be given against the specific point in “*Observations*” part.

- If there are some negative observations where the numbers of instances are considerably large then in such cases the IA can include a few instances in the annexure on illustrative basis. Here it is pertinent to note that *Chapter 7 of CDSL Operating Instruction* levies penalties on Issuer/ RTA for certain non compliances on the basis of instance observed. This makes it necessary that the IA clearly states the total number of instances for such deviation emerging at the time of inspection and not on illustrative basis.
 - During inspection, if IA finds that Issuer/ RTA has not followed any particular procedure or several instances of noncompliance are observed. For such instances, CDSL has presently levied penalty on the basis of nomenclature of observation and not per instance basis, the IA can thus give a illustrative list of observations only.
 - Apart from this, for all the negative comments given by the IA, he should specifically state the methodology adopted and rationale for forming such opinion in the column provided for ‘*remarks*’.
 - IA should try to base his opinion only on the basis of verification carried out during inspection and not on the information explanation provided by Issuer/ RTA. However there are some instances where due to constraints it was not possible for IA to carry out verification to draw conclusion. In such cases, IA should specifically state against the relevant checklist point that the information is provided to him by the Issuer/ RTA.
 - It is necessary that the report incorporates management responses, wherever provided by the Issuer/ RTA, for each adverse comment given by the IA. The management comments may be included beneath the observation given by IA.
- d. *It is significant to note that the checklist provided is just a tool to guide the IA during the assignment of inspection. During the inspection if IA comes across non-compliance / procedural lapses which are not covered by the ambit of checklist, then such observations or suggestions should included by the IA in his report by giving relevant heading.***

III. Checklist:

CDSL has prescribed a detailed ‘Checklist for Inspection’. The rationale behind providing a structured checklist is to ensure that all critical areas are covered at the time of inspection.

The Checklist is structured to include the following areas for each point:

- **Comments**
- **No of instances**
- **Remarks**

The IA should ensure that he understands the purpose behind verification of every point in the checklist and give his comments accordingly. Remark column should be used in such way so as to give a very precise picture of operations handled or controls present at RTA’s operations. In case of a checklist point with sub-points, the comment, no. of instances and remarks have to be mentioned separately for each sub-point.

IV Annexure:

During the course of verification, the IA may come across several instances of non compliances. It is very essential that the IA properly categorizes these deviations under relevant checklist points and list them down in the form of annexure. At the time of preparation of annexure, the IA has to keep the following aspects in mind:

- The annexure should have appropriate title to indicate the type of deviations reported in them.
- The annexure should be properly numbered and reference of the same should be given in the check list and observation against relevant points.
- The annexure should specifically state whether the instances listed are on illustrative or on exhaustive basis.
- The annexure should provide complete details of the instances reported which would facilitate easy identification.

Chapter 6 – Abbreviations

The various abbreviations which the IA may come across during the inspection of Issuer/ RTA are mentioned below for easy reference.

Abbreviation	Full Form
BCCD	BSE's Certification on Central Depository
BO	Beneficial Owner
BOS	Back Office Software
CDAS	Central Depositories Access System
CDSL	Central Depositories Securities limited
CH	Clearing House
CM	Clearing Member
DIS	Delivery Instruction Slip
DP	Depository Participant
DP ID	Depository Participant Identity number
DRF	Demat Request Form
DRN	Demat Request Number
EOD	End Of Day
HNI	High Net worth Individual
HUF	Hindu Undivided Family
IA	Inspecting Authority
IPO	Initial Public Offering
IRF	Invocation Request Form
ISIN	International Securities Identification Number
MICR	Magnetic Ink Character Recognition
MIS	Monthly Information System
NRI	Non Resident Indian
OCB	Overseas Corporate Body
PAN	Permanent Account Number
PF	Provident Fund
POA	Power Of Attorney

Abbreviation	Full Form
POD	Proof Of Delivery
ROC	Registrar Of Companies
RRF	Rematerialization Request Form
RSE	Recognized Stock Exchange
RTA	Registrar & Transfer Agent
SOA	Statement Of Account
SEBI	Securities Exchange Board of India
TRPF	Transposition Request Form
UPS	Uninterrupted Power Supply
