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Central Depository Services (India) Limited

Inspection Manual

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Version 63 – 31.03.2023

Central Depository Services (India) Limited

Inspection Manual

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Chapter 1 - Introduction

The origin of the depository could be bracketed together with the need to solve the copious problems faced by the overall share market while handling securities in physical form. Central Depositary Services (India) Limited (herein after referred as “CDSL”) was set up in February 1999 to provide depository services to the investors and since then it has been providing services to investors in holding securities in the electronic form and enables securities transaction through its Depository Participants (DP).

To protect overall interest of the capital market and investors, CDSL has formulated byelaws, operating instructions and comes out with amendments regularly through communiqués. Besides this section 16 of SEBI Depositories Act, 1996 imposes liability on depository to indemnify the losses caused to the beneficial owner due to the negligence of the depository or the participant. Therefore, it is very crucial for depository to ascertain whether the participants so registered carry on the business in line with the provisions of the Regulations and also whether the conduct of the participant is in the overall interest of the capital market and the investors. To achieve this objective, CDSL conducts regular inspection of its DPs and Registrar and Transfer Agents (RTA) through their own staff and independent firms of professionals.

The underlying focus of these inspections is to improve the operations of the participants, to verify whether participants 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 beneficial owner.

Chapter 2 - Role and Scope of Inspection

The objectives of the inspection of the depository participant are to ensure that all operations are performed in a manner that are in the interest of the beneficial owner 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 depository. The inspection checklist, which would be followed by IA as a guiding tool is given in ensuing chapter. The major areas of inspection include but not limited to the following.

- Account opening and "Know Your Clients" (KYC) documentation: - Individual, corporate, clearing members etc.
- Change in BO masters, Account closures/Account shifting.
- Dematerialization and Rematerialization:- Collecting physical certificate from the BOs and forwarding it to the issuer/registrar after proper processing and follow-up if required,
- Issuance and Processing of Delivery Instruction: - Account transfers (On and off market transfers)
- Pledge / hypothecation
- Freeze/ Unfreeze/ Transmission/ POA
- Fees and Charges for depository services.
- Compliance with SEBI Regulations, CDSL bye laws, Operating Instructions and communiqués.
- Records maintained for recording and redressal of investor grievances / complaints.
- Systems, procedures, records keeping, level of client service etc. available / followed by DP
- Exceptional events like loss of certificate in transit, Auction of securities due to non-execution of instruction, execution of instructions without proper authorization from the BOs etc.

Chapter 3 – Sample Selection

As inspection is a time bound program, it is inevitable for inspecting authority to carry out verification on sample basis. Sampling involves testing of relatively small number of transactions to obtain knowledge about/verify a larger population. The extent of testing to be done is primarily a matter of judgment of IA, there is no statutory requirement, which specifies what work is to be done, how it is to be done. IA is advised to refer SEBI Circular CIR/MRD/DMS/05/2014 dated February 7, 2014 for sample selection.

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
- Observation of earlier inspection/internal audit report

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. For verification, minimum sample which IA needs to select by IA is mentioned below. However, if IA comes across any lapses or mistakes then the sample size may be further enlarged to substantiate the findings.

The IA should note that the sample should be representative of the back office connected branches of the DP.

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

(A) Account Opening and KYC Documentation:

Sample selection for verification of Account Opening

The sample size should be given in percentages as well as in absolute numbers.
The IA should scrupulously select the samples for verification so as to ensure that the cumulative sample includes percentage of samples per category of the account.

Following points also needs to be considered by IA while selecting the sample of demat accounts opened during the period.

- In case, the total number of accounts opened under any of the captioned categories is less than 50, the IA should check all such accounts in the category i.e. checking should be done on 100% basis.
- In case, the IA wants to increase the sample size to be in proportion of the population or in case of any procedural lapse observed, the categorical balance should be maintained.
- The IA should ensure that the sample so selected should also cover at least 1% of AOF, which received at the outstation branches so as to check the acceptance procedure followed at branches. Where accounts opened at such branches are less than 10, 100% verification should be carried out.
- IA should select 10 or 1% of the total AOF cases, whichever is higher.
- IA should select 100% of account opening forms relating to FIIs
- Accounts having address at place distinct from that of the Main DP or its branches or service centers by filtering on the address column in the **DPS8 DPS9 Report** generated from CDAS. This is necessary to check the verification procedure followed for KYC documents at such places.
- IA should select at least 10 sample cases where correspondence address is different from permanent address. This can be selected by comparing the address mentioned in ‘permanent address’ column with the ‘correspondence address’ **DPS8/DPS9/** report.

- **Nomination:** From the samples selected, the IA should also check whether the nomination forms, if so attached with the AOF is duly updated in the Nomination Register maintained by the DP and also whether the same has been

properly updated in CDAS. For this purpose, at least 25 accounts with nominee details entered in CDAS should be selected to check whether the entry is supported by the nomination form and Nomination Register is maintained properly.

- **POA:** In case of verification of accounts operated through POA, the IA should check all the POA Operated accounts appearing in the samples so selected on the basis of the aforesaid sample plan.

(B) Account Modification:

The IA should select the sample of at least 25 cases in each type of modification evenly spread throughout the inspection period. IA can generate DPD1 Report from Reports module or report on modification from Non Financial History module of CDAS for getting the data on modification and selecting the samples for modification done.

The sample can be increased to cover all possibilities of modification namely:

- Change of Address (Permanent or Correspondence) - 25;
- Change of Signature - 25;
- Change in Bank Details - 25;
- Addition/ Modification or Deletion of Nomination details - 25;
- Addition or deletion of authorized signatories of POA - 25.
- Change in BO Name – 25 (Operating instruction 3.4.10) & Communiqué 5311 dated July 13, 2015

(C) Dematerialization / Rematerialisation/ Repurchase:

(i) Dematerialization:

<u>Sample selection for verification of Dematerialization</u>

The sample size should be given in percentages as well as in absolute numbers.. The sample size should be 5 % of request processed or 100 requests whichever is higher with a maximum cap of 500 Demat requests.

The inspecting authority if comes across any significant lapses then the sample size should be suitably enlarged.

- In order for the sample size to represent the inspection period, the sample selected should be evenly spread throughout the inspection period.
- IA can select the samples from the DP57 report generated from CDAS. DP57 report contains a summary of all demat request set up in CDAS system for the particular period selected.

(ii) Demat Rejections:

- The sample should be selected for carrying out verification with regard to timeliness in sending demat rejections to BO etc. and for verifying the mechanism followed by DP for analysis of reasons of demat rejections. IA can select the samples from the DP57 report generated from CDAS. DP57 report is a summary of all demat request set up and demat rejections in CDAS system for the particular period selected.
- In case if the total number of demat rejections is less than 30, the IA should check all such cases i.e. checking should be done on 100% basis.

(iii) Remat / Repurchase:

The sample size should be 5 % of request processed or 100 requests whichever is higher with a maximum cap of 500 Remat requests.
(Ref : SEBI Master circular : SEBI/HO/MRD2/DDAP/CIR/2021/18 dated 5 Februuary, 2021)

The inspecting authority if comes across any significant lapses then the sample size should be suitably enlarged.

(D) Issuance and Processing of DIS:

1. Issuance of DIS Booklets:

- In case if the total number of issuances of DIS Booklets is less than 50, the IA should check all such cases i.e. checking should be done on 100% basis. Further IA should check that DIS issued to BOs on or after October 01, 2014 are entered (online /upload) in CDSL system. All such DIS should comply with the standardization requirements as specified in CDSL circular CDSL/OPS/DP/ POLCY/4488 dated June 09, 2014

(hereinafter referred as new DIS). (Communiqué 4166, 4664)

2. Processing of DIS:

(i) Delivery Instruction Slip:

Sample for DIS received from Clients should be such, as it would cover all types of transactions i.e. on market, off-market and inter-depository. The IA should spread the sample evenly over the entire inspection period. In case, the total number of DIS is less than 50, the IA should check all such cases i.e. checking should be done on 100% basis. The assumption is made as five instructions per Delivery Instruction slip. Out of total intra depository instructions to be verified, the percentage of 'On' and 'Off market' instructions should be in the ratio of 1/3 and 2/3.

The sample size should be given in percentages as well as in absolute numbers.

The inspecting authority if comes across any significant lapses then the sample size should be suitably enlarged.

(ii) DIS received through Fax:

For DIS received through Fax, the IA should ensure that the sizeable sample is selected out of the total instructions considered as sample.

(iii) For DIS of value more than five lacs:

The minimum sample selected above for verification should include at least 10% of the instruction with value more than five lacs.

(iv) DIS received from Dormant Accounts:

For DIS received from Dormant Accounts in the Inspection Period, the IA should consider 5% of the aforesaid requests processed during the inspection period should be selected as sample verification.

Scanning of DIS

IA should verify that all DIS executed on after 01-October-2014 are scanned and uploaded on CDSL system. (Communiqué 4685, 4729, 4734, 4762, 2017-275, 2019-23)

(E) Account Closure:

In case, the total number of account closure requests is less than 25, the IA should check all such cases i.e. checking should be done on 100% basis.

(i) Initiated by BO:

- The IA should select such a sample of the Account closure initiated by BO which can represent observations for the total population.

(ii) Initiated by DP:

- The IA should check sizeable account closures cases which are initiated by the DP.

(F) Freeze/ Unfreeze:

The IA should check the freeze cases initiated other than by a BO, i.e. checking should be done on 100% basis.

(G) Pledge/ Unpledge/ Hypothecation/ Invocation:

Pledge / unpledge requests processed during the inspection period should be selected for verification.

Where number of requests processed during the period is less than 10, then IA should verify all the requests. i.e. checking should be done on 100% basis.

(H) Transmission:

The IA should check 50% transmission cases.

(I) POD for Transaction Statements:

The IA should select the sample in such a manner so that the samples represent all the branches and check the POD to ensure whether transaction statements have been sent to such BOs as per the Report DPC5 and DPG5.

***

Chapter 4 – Inspection Methodology

To ensure consistency in the verification procedure, a uniform methodology needs to be followed by all the inspection teams.

This Inspection Manual is provided to the IA to ensure better understanding about the various checks incorporated by CDSL in the checklist for the inspection. Thus, the IA is expected to follow the methodology as given in this manual after understanding the gamut of the check and the intension of including such check in the inspection.

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

Module I – Account Opening and Account Modifications

SEBI has laid down various KYC norms vide SEBI Circular No. **MRD/DoP/Dep/Cir-29/2004 dated August 24, 2004** which the Participant is required to comply with at the time of opening demat account of BOs. Thus, the inspector is required to ensure that the DP implements strict controls for verification of veracity of details provided in the account opening form and genuineness of documents submitted.

In addition to above, an inspection team should also verify that documents submitted by the BO along with the AOF are as per the SEBI circular MRD/DoP/Dep/Cir-09/06 dated 20th July 2006 and SEBI circular MIRSD/SE/CIR-21/2011 dated 05 October 2011, CDSL communiqués, operating Instructions and byelaws. The basic objective underlying adherence to KYC norms is to identify applications made in fictitious name and weed out the same to prevent possibility of money laundering.

Part 1 - Sample Selection

IA should obtain a "DPS8/DPB9 Report" generated through CDAS for the Accounts opened during the inspection period. This would give complete idea about the overall volume of the operations of the participants and help in preparing the sample plan for that particular inspection.

The DPS8/DPB9 Report can be generated in Spread Sheet format and hence it can be filtered using different criteria. The IA should by using filter on status and sub-status field, decide the sample size as tabulated in Chapter 3 representing various categories like HUF, NRI's, Corporate, Trusts, commodities, promoters etc. Sample should be selected as detailed in **Chapter 3**.

Also, the inspector should obtain a list of service centers/ branches and the persons authorized by DP to authenticate the proof of identity and address submitted by BO (SEBI Circular No. 36/2000 dated 4th August 2000).

Part 2 - Documents to be collected for Verification

During the process of verification, inspecting authority need to verify whether the documents prescribed by CDSL are obtained before opening BO account.

The various documents are required to be collected are stipulated in Chapter 2.3 of Operating Instructions of CDSL. The documents requirement would change depending upon the type of prospective BO account. BO wise details of these requirements are attached as Exhibit 1.

Part 3 - Methodology

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

1.01 Whether (i) The proof of identity and address (Permanent & Correspondence) is collected from non-body corporate as per SEBI, CDSL & PMLA requirements and the same are verified against originals. (ii) DP does in person verification of Demat accounts opened

1.01(i). Whether DP performs initial KYC/due diligence and uploads the information with proper authentication on KRA system and furnishes scanned images of KYC documents to KRA and retain the physical documents.

1.01(ii) Whether DP downloads/fetches the documents from KRA system in case of KRA approved / verified cases and maintains electronic records of KYCs of BOs as per SEBI circular no. MIRSD/Cir-26/2011 dated December 23, 2011.
1.01(iii) Whether Corrective actions are taken by DP, for cases kept on hold - rejected by KRA. Refer communique 2774.
1.01(iv) Whether BO is registered with KRA and does not want to use the correspondence address mentioned in the KRA system, DP obtains the proof of correspondence address and keeps on record for such cases.

1.01(v) Proof of identity of third party is on record if such third-party address is obtained as correspondence address. (Refer Comm.2203)

1.01(vi) Whether the DP has captured the KYC information for sharing with the Central KYC Records Registry in the manner mentioned in the PMLA Rules, as per the KYC template for "individuals" finalised by CERSAI

1.01a SEBI guidelines for implementation of KRA Regulations have been followed.

Verification Methodology:

Re.: (i) Collection of proof of identity:

SEBI vide Circular No. MRD/DoP/Dep/Cir-29/2004 dated August 24, 2004 and Circular No. MIRSD/SE/CIR-21/2011 dated October 5, 2011 prescribed various documents that may be accepted as proof of identity (POI) for non-body corporate. DPs are also required to comply with SEBI Circular No. MIRSD/Cir-26/2011 dated December 23, 2011 providing the guidelines for intermediaries, in-person verification and subsequent circulars issued by SEBI from time to time in this regard. (Refer Communiqué 456, 2675, 3277 & 3353)

As a sequel to SEBI circular, CDSL vide Operating Instruction 2.3 has made it mandatory for the DP to collect proof of identity from the BO at the time of account opening. Further, it is to be noted, according to Rule 2 (d) of Prevention of Money-Laundering (Maintenance of Records) Rules, 2005 (PML Rules) and G.S.R. 538(E), dated 1 June, 2017, PAN will not be considered as Officially Valid Document (OVD) and has to be obtained separately. The DPs are required to exercise due diligence while establishing the identity of the persons ensuring the safety and integrity of the depository system.

A stamp of Verified with Original should be affixed on the copies POI and POA documents obtained.

DP is required to perform initial KYC, upload the information along with scanned images of KYC documents to KRA and retain the physical documents. (Refer communiqué 2774 dated 27.12.2011)

DP is required to download /fetch the documents from KRA site in case of KRA approved cases and maintains electronic records of KYCs of BOs as per SEBI circular no. MIRSD/Cir-26/2011 dated December 23, 2011.

SEBI has issued an amendment to the KYC (Know Your Client) Registration Agency (KRA) Regulations, 2014, vide notification no. LAD-NRO/GN/2013-14/46/522 dated March 13, 2014, wherein it is directed that in case of modification i.e. Change in KYC details, when the client approaches another intermediary subsequently, the intermediary shall verify and download the client's details from the system of KRA, provided that upon receipt of information on change in KYC details and status of the clients by the intermediary or when it comes to the knowledge of the intermediary, at any stage, the intermediary shall be responsible for uploading the updated information on the system of KRA and retaining the physical documents. (Communiqué 4327)

In cases where KYC documents have been rejected by the KRA or have been kept on hold for incomplete documents the DP has to take corrective actions as per communiqué no. 2774 dated 27.12.2011 a submit a fresh to KRA.

It is mandatory for the DP to obtain Proof of address from all Body Corporate, Corporate Clearing member, Bank, Registered society, Public trust/Charitable trust/Bank and capable of holding property in its name, recognized funds/Trusts/Other similar entities to collect proof of address from the BO at the time of account opening. (Refer O. I. 2.3.2 to 2.3.17), communique 5202 for visually challenged person, communique 5774 for Trust) Inspection Authority needs to go through the operating instruction for knowing the type of documents which will be acceptable as proof of address in addition to that the additional documents required may be obtained as per SEBI circular no. MIRSD/SE/Cir-21/2011 dated October 5, 2011. (Refer comm. 2675 dated 7.10.2011).

In case of HUF account address of Karta or HUF entity may be updated in the system. In either case, proof of address documents for opening of individual investor will have to be taken on record. (Refer Communiqué 2508 dtd.20.06.2011)

In case of Corporate account (Domestic or Foreign), Corporate CM and Banks, Proof of address evidenced by documents registered with registering authority or bank statement or agreement for sale or leave and license agreement or Residence Telephone bills (Bill date not more than three months old) or Electricity bills (Bill date not more than three months old) can be accepted as address proof.

In case of foreign corporate a duly signed declaration that the corporate has complied with and will continue to comply with, FEMA Regulations and other applicable laws. (Refer Communiqué 2787 & 3277 dtd.31-Dec-2011 & October 16, 2012 respectively). This is in addition to all documents required to be obtained as per domestic corporate. If BO has added landmark details in the address column of the Account Opening / Modification Form / Letter, than DP can capture the same in CDAS, even though the same is not appearing in the proof of address documents, preceded by words such as above, adjacent to, behind, near, next to, off, opposite etc. (Refer to Communiqué 2516 dtd.24.06.2011).

The IA should verify whether the data as given on the Account Opening Form (AOF) with respect to name of all the account holders and address matches with that given in the address proof. DPs are required to comply with SEBI Circular no. MIRSD/SE/Cir-21/2011 dated October 5, 2011 regarding KYC documents admissible as Proof of Identity and Proof of Address and additional documents to be obtained from individuals and non-individuals, over and above the proof of identity and proof of address

Critical Aspects:

- It may be noted that, the copies of proof attached by the prospective BO should be verified by the DP official. Thus, IA should ensure that the "VERIFIED WITH ORIGINAL" stamp is accompanied by the signature of the DP official.
- Inspecting team should also include in their sample, BOs who have provided an address, which is in a place where the DP does not have any branch. Thus, they will be able to check how the original documents have been verified in such a situation.
- In case if the prospective BO submits Electricity Bill or Residence Telephone Bill as address proof, the IA should check whether the date of generation of the bill is not more than three months old from the date of receipt of AOF by DP. It may be noted that the date of generation of the bill is to be considered and not the due date for payment of the bill.
- Besides the above, the IA should check that in case if the BO has submitted Leave and License agreement, the same is not expired before the date of receipt of AOF by DP.

If the correspondence address is different from the permanent address, proof of address should be collected for both permanent & correspondence address. Both the addresses must be entered in the system. (Refer O.I.2.3.2).

If BOs wish to receive their correspondence at the address of some other entity - such as POA holder for NRI, for IPO/Margin financing, etc., proof of address documents in the name of such other entity may be accepted as proof of correspondence address of the BO, provided the same is mentioned in the account opening form. In all such cases, the DP shall ensure that proof of permanent address for the BO has been obtained and the same has been entered in the system.

IA should also check for the sample selected of AOF, DP has properly captured both the addresses where correspondence address is different from permanent address.

It is clarified that a document specified as proof of which is in the name of the BO and contains address of third party can be accepted as proof of correspondence address. IA has to verify that in above both the cases the proof of permanent address obtained is in the name of the BO.

Further, as per SEBI circular no. CIR/MRD/DP/ 37 /2010 dated 14.12.2010, (Communiqué 2203 dated 16.12.2010) SEBI has no objection to a BO authorizing the capturing of an address of a third party as a correspondence address, provided that the depository Participant (DP) ensures that all prescribed 'Know Your Client' norms are fulfilled for the third party also. The DP shall obtain proof of identity and proof of address for the third party. The DP shall also ensure that customer due diligence norms as specified in Rule 9 of Prevention of Money Laundering Rules, 2005 are complied with in respect of the third party.

The above provision will not be applicable to PMS clients as informed by SEBI vide its earlier letter no. IMD/ MT/ 165502/ 2009 dated June 05, 2009.

IA should verify that DP has obtained the KYC documents of third party whose address has been obtained. Any adverse observation should be pointed out as non-compliance.

IA should verify the KYC information captured by DP on Central KYC Records Registry is in accordance with PMLA Rules as per SEBI Circular no. **CIR/MIRSD/66/2016** dated **July 21, 2016, communiqué 6049.** Any adverse observation should be pointed out as non-compliance

Critical Aspects:

- It may be noted that the copies of proof attached by the prospective BO should be verified by the DP official. IA should ensure that the "VERIFIED WITH ORIGINAL" stamp is accompanied by the signature of the DP official under the DP stamp on the documents obtained.
- Inspecting team should include in their sample size the above category BOs. The other requirements for verification should be adhered to as mentioned above in point (a)

Any adverse observations emerging out of verification mentioned above in para (a), (b) and (c) needs to be mentioned in the inspection report along with the instances.

1.02a) Whether necessary documents/ information as prescribed by CDSL (as per DP Operating Instructions) have been collected from different types of clients such as individual investors, CM's, Corporate, HUF, NRI's, OCB's, trusts, etc.?

Every BO account opened by DP must be supported by all the documents as prescribed by CDSL. (Refer CDSL Operating Instruction 2.3).

In case, if sole holder is a minor/person with mental disability, KYC application form should be collected from the guardian also (Communiqué 4422)

A person suffering from conditions relating to Autism, Cerebral Palsy, Mental Retardation and Multiple disabilities, can open a demat account in his/her own name through a guardian. The guardian may be appointed by Local Level Committee under the National Trust for the Welfare of persons with Autism, Cerebral Palsy, Mental retardation and multiple disabilities Act, 1999 or District Court under Mental Health Act, 1987. Based on Guardianship Certificate issued by the aforesaid authorities for the purpose of opening and operating the demat accounts, the demat account can be opened. If the person is a "mentally ill person" (person who is in need of a treatment) by reason of any mental disorder other than mental retardation, the account can be opened in his/her own name through a guardian appointed by the District court and collectors of districts under the Mental Health Act 1987..

The IA may also verify the format of the account opening form and check whether the same is as per the format prescribed in Annexure 2.1 (for Individual, NRI, HUF and Foreign National) and Annexure 2.2 (for Body Corporate, FII, Banks, OCB's, Society and Trust) of CDSL

Operating Instruction (OS) (refer SEBI vide its circular no. CIR/MIRSD/1/2015dated March 04, 2015.)

The IA should check the AOF for the sample selected, to ensure the completeness and accuracy w.r.t. the supporting attached with it.

As per CDSL Communiqué 666 - Every BO should submit photocopy of PAN Card. The Inspecting team should ensure that the DP official accepting the account opening form needs to verify the photocopy of the PAN Card against the original, sign and stamp the copy as "VERIFIED WITH ORIGINAL". However, on PANCARD the stamp 'PAN Verified' is required to be affixed in case of demat accounts to be opened w.e.f. 21.04.2011 (Communiqué 2419 dated 21.04.2011).

The IA should also verify whether DP maintains any US reportable accounts, as defined in the Model 1 Inter-Governmental Agreement. If yes, whether necessary actions are taken (Communiqué 4910 / 5410 / 5434)

BSDA (Basic Service Demat Account)

1) Eligibility Criteria:
   - Only individuals are eligible for BSDA account subject to :
     - Individuals who have or propose to have only one demat account as sole or first holder across all depositories.
     - Not for second holder
     - Value of securities shall not exceed two lacs at any point of time.
2) Option to open BSDA account :
   - To open BSDA account option is available to all eligible individuals who may open account after the date 1.10.2012.
   - Existing eligible individuals to convert their demat account into BSDA on the date of the date of the next billing cycle based on value of holding of securities in the account as on the last day of previous billing cycle.
3) Charges :
   - No AMC to be charged if the value of holdings other than debt securities is up to `50000/- and in case of debt securities value is up to `1,00,000/

- Value between `50,001/- to `2,00,000/- in case of holdings other than debt securities AMC may be charged not exceeding `100/-.
- Value between `100,001/- to `2,00,000/- in case of holdings of debt securities AMC may be charged not exceeding `100/-
- Value of holdings should be decided on the basis of the daily closing price or NAV of securities. If the security is not traded and last traded price is not available, the last traded price may be taken & for unlisted securities (other than MF units) face value may be considered for deciding value of holdings.
- At least two DIS slips shall be issued at the time of account opening.
- In case of BSDA account, IA should check whether the account have SMART registration.
- IA should check whether DP has obtained a declaration (Refer communiqué 3246) from BSDA investor that first holder / sole holder does not and will not have any other demat account across all depositories.
- IA should check whether the DP has converted the non-BSDA account to BSDA as per the eligibility norms on billing cycle (CDSL Communique 5615) and DP have process to check the same on every billing cycle.
- For further details on BSDA accounts, IA may refer to CDSL communiqué nos.3190, 5615, DP2019-200**.**

Critical Aspects:

- As per CDSL Operating Instruction 2.4.1, a Power of Attorney holder cannot open a demat account on behalf of the BO.
- In case of a minor account is opened or in case of a minor is appointed as a nominee, then the Guardian details needs to be provided. The IA needs to verify whether such required CDSL provisions have been complied with.
- The minor should be the sole holder and it should not be a joint account. According to the Hindu Guardians and Wards Act, natural parent i.e. Father and in his absence, mother only can be the guardians. In any other event, the guardian has to be appointed by the court. It should be ensured that while opening minor account, and also in case of minor as nominee guardian is appointed as mentioned above.
- Further, IA should also verify that the photograph of the holders/ authorized signatories are pasted (not stapled) and signed across by the holders on photograph. (Para 2.4.6 of the Operating Instructions)

- The signatures of POA, if any, must be scanned in the system along with the signature(s) of all the holder(s). (Para 2.4.19 of Operating Instruction)
- In case of HUF Account, a declaration by Karta should be given containing details of the family members of the HUF with their names, sex (male/ female), date of birth and relationship with the Karta under the stamp of HUF. It has been observed that in many cases such declaration is not collected from the account holder. The IA should bring forward such discrepancies in the report.
- In case POA is to be given by Karta to some other entity to operate HUF account, the POA shall be signed by all the members of HUF account in addition to the Karta, refer O. I. 2.3.4.

1.02.b) DP obtains the information on "Financial Status" of clients in the Account opening form (AOF).

Verification Methodology:

PMLA requirement: As per communiqué 989 dated November 13, 2007 the information on "Financial Status" and 'Nature of Business" of clients in the Account opening form (AOF) should be obtained. However, as per communiqué 2787 dated 31.12.2011, Nature of Business is not required to be obtained from the BO(s).

IA should verify the account opening forms as to whether the DP has obtained the information on "Financial Status" of the clients on a separate sheet or on AOF itself. DPs have been allowed to use old format of AOF and obtain the said information on additional sheet till 30.09.2008. DPs have been advised to ensure that the modified format of the Account Opening Forms [Annexures 2.1 and 2.2], as given in communiqué DP 989, are in place and exclusively used from October 01, 2008 onwards.

Any adverse observation emerging out of verification should be reported in the inspection report along with the instances.

1.02.c) DP has opened BSDA account as per Communiqué no 3190 (Dated 28.08.2012.

1.02.d) The DP has reassessed the eligibility of the BOs at the end of every billing cycle and acted on SEBI circular no CIR/MRD/DP/20/2015 dated 11.12.2015 in BSDA account.

Verification Methodology:

IA should verify that the DP has followed all the procedures given in the communiqué 3190 dated 28.08.2012 while opening new demat accounts.

IA should verify as to whether the DP has reassessed the eligibility of the BOs at the end of every billing cycle and acted on SEBI circular no CIR/MRD/DP/20/2015 dated 11.12.2015 in BSDA account.

1.03 whether DP has correctly entered PAN details (as prescribed under guidelines of CDSL / SEBI / PMLA) in CDAS?

Verification Methodology:

As per CDSL Communiqué 755 - Every BO should submit photocopy of PAN Card as proof of PAN details. The IA should ensure from the sample so selected for verification whether the account is opened along with the PAN details.

The IA should get the DPS8/DPS9 Report generated from CDAS for verifying the PAN details. The IA should check for following points while verifying the PAN details:

The PAN as recorded in CDAS (reflected in DPS8/DPS9 Report) is same as that displayed on the PAN proof and the AOF;

The IA should also check on real time basis whether the DP accepts the proof of PAN card only after due verification of all the details mentioned in PAN card with the Income Tax site.
As per SEBI circular CIR/MIRSD/01 /2013 dated January 4, 2013, in case if the BO has not submitted copy of PAN card, the DP may verify the PAN of the BO online at the Income Tax website without insisting on the original PAN card, provided that the BO has presented a document for Proof of Identity other than the PAN card (Communiqué 3417 dtd.07.01.2013)
IA should also check whether relevant verification flag has been properly updated by the DP for the entry and verification of PAN.

As per SEBI instructions, DP should verify the PANCARD details entered for each holder, for each account in the system. The same verification can be recorded in the system. For details like PAN verification codes, procedure for new account opening and modification refer CDSL communiqué 789 dated November 14,2006. For updating/verification/modification of PAN details in the system no Account Modification Form is required.

IA should note that in case of Proprietorship concern or Partnership firm BO accounts can be opened in the name of a proprietor or partners [Maximum 3 Partners] (O.I. 2.4.5). BO accounts in the name of Proprietorship concern or Partnership firm cannot be opened in CDSL system. PAN card details are to be obtained for proprietor/partners as well as for the partnership firm. The pan card details of the partnership firm / proprietor is to be updated in the CDSL system

(O.I. 2.4.5). In case of clearing member the account may be opened in the name of entity (proprietor/partnership firm) as mentioned on the Certificate of Registration with SEBI. (Refer O.I. 2.6.3)

For PAN exemptions refer to operating instructions 2.4.9. PAN non-compliant demat accounts shall be "suspended for debit as well as credit" other than the credits arising out of automatic corporate actions. It is clarified that other credits including credits from IPO/FPO/Rights issue, off-market transactions or any secondary market transactions shall not be allowed into such accounts. (Communiqué 2063 dtd.29.07.2010)

Any adverse observation emerging out of verification should be reported in the inspection report along with the instances.

1.04.(a) Whether DP has given Rights and Obligations document physically or electronically to the BOs and kept acknowledgement on record or maintained log for electronically forwarded document in case of new demat accounts is activated in CDAS?

1.04.(b) Whether the DP-CM agreement has been executed for CMs of BSE

1.04.(c) Whether DP has done any alterations in the contents of SEBI specified Rights and Obligations document?

1.04.(d) Whether DP has executed any supplementary agreement / undertaking with the BO, which has clauses contradictory to SEBI specified Rights and Obligations document

Verification Methodology:

The IA should check that DP BO Rights and Obligations is as per communiqué 4095 dated 04.12.2013. An inspector needs to make note of following points while verifying the DP-BO Rights and Obligations during inspection:

- DP has given Rights and Obligations documents to the BOs and acknowledgement copy are kept in record.
- DP has not done any alteration in the SEBI specified Rights and Obligations

documents.

- DP has maintained logs in case the Rights and Obligations documents made available to the BOs in electronic form. (Refer Communique 6029 dated 18.07.2016)

The IA should also note that FII's and International Multilateral Agency and Global Custodian are exempt from executing Rights and Obligations with the DP provided it satisfies the conditions as stipulated by CDSL.

Refer A BSE CM, who is not a participant in CDSL, is required to enter into an agreement with the DP (when opening Settlement Accounts). Format of the agreements shall be as specified by CDSL. (refer **Operating Instructions2.4.3)**

The format of DP BO Rights and Obligations is provided by CDSL and the same format should be used by the DPs for informing to BO. The format of DP BO Rights and Obligations has been advised to the DPs vide communiqué 4095 dated 04.12. 2013.DP should not supplement to format of Rights and Obligations or do any modification like addition or deletion of clauses from the format of DP BO Rights and Obligations.

IA should check the format of DP BO Rights and Obligations with the SEBI specified DP BO Rights and Obligations and ascertain whether any changes have been made in the format. If so, the same should be pointed out as non-compliance in the inspection report.

1.05 If the DP has opened any PMS demat account, whether DP ensures the compliance of communiqués issued by CDSL? (Refer Communiqué 1622, 1633 & 1931)

Verification Methodology:

The sub-status has been created for PMS demat accounts which may be opened by the DPs. It has been clarified by SEBI that:

- Power of attorney holder (POA) cannot open the account on behalf of the BO. It should be opened by the BO only. POA may be permitted to operate on the account.
- PMS Account should be opened in the name of BO only and not in the style of "Name of PM- PMS a/c Investor name".
- In person verification carried out by one SEBI registered intermediary can be relied upon by another intermediary. Accordingly, if Portfolio manager is registered with

SEBI the same will be held good.

- Portfolio manager's address cannot be captured as correspondence address. Transaction statement may be sent/ made accessible to both – the portfolio manager and its client.
- Facility for holding a pool account for the portfolio managers for operational and commercial purposes similar to CM's accounts and transfers from pool account cannot be treated as on market transfers. It has been clarified that Pool account can be used for the purpose of ease of operation i.e. trades can be done in one single order but the securities cannot lie in the pool account overnight as it will defeat the purpose of SEBI regulations, hence all securities need to be segregated into the individual demat accounts of the client.
- Bank account details of BO should be taken on record and captured in CDAS system and not that of the portfolio manager.

Hence, IA should check on the above guidelines and if the DP has not followed any of the requirements, it should be pointed out as non-compliance.

1.06 Whether the procedure prescribed by CDSL for opening & operating the AMC CM account for settlement of Mutual Fund units is being complied with ?(Refer O.I. 2.3.6.c)

Verification Methodology:

For opening of Asset management Company (AMC) Pool account it has been specified under Operating Instructions 2.3.7.c the various documents required to be obtained for opening of the account. IA should verify that proper documents are taken on record and for any deviation or deficiency in obtaining of document observed should be pointed out as non-compliance.

1.07 Whether the procedures prescribed by CDSL for opening and operating the account of illiterate person and disabled persons are being complied with?
(Refer Communiqué 290)

Verification Methodology:

The IA should check for any illiterate/disabled person's account from the Account Opening Form samples selected for verification. The IA needs to check whether the back-office system of the DP has an internal mechanism to track account of illiterate/ disabled person, if not then whether the DP has maintained a physical record of such accounts, though it has not been

mandated by CDSL.

Since the account opening for illiterate/ disabled person is not common, it is essential for the IA to ensure that the DP Official knows the procedure to be followed for opening of illiterate/ disabled person's account.

The IA may refer to CDSL Operating Instruction 2.5 for the procedure required to be followed by the DP for opening and operating the account of illiterate person or disabled person.

The procedure to be followed with respect to settlement procedure for the account of illiterate/disabled person is stated in CDSL Operating Instruction 6.6.

The IA may note that in case of illiterate /blind person, the official of the DP has put his signature and remarks "Details explained to the BO" on the account opening form.

1.08 Whether there is adequate mechanism to ensure that the details of account opening forms are entered correctly in the CDAS?

Verification Methodology:

The IA may get DPS8/DPS9 Report spooled from CDAS or the screen dump of CDAS and cross verify the same with the AOF of the respective BO.

Following are the critical fields which IA should verify in CDAS with the particulars mentioned in AOFs by BO to ensure that correct procedure is followed for setting up a new client master and data are correctly entered in the system as mentioned in the AOF.

- Name of the first, second and third holder.
- Permanent and Correspondence address (if any)
- Status and Sub status of the Beneficial Owner
- PAN (mandatory as per Communiqué 657)
- Bank details and MICR code (As per communiqué 681).
- Nomination details as per Annexure A of SEBI cir. (Maximum Three nominee) (if any) with witness signature is required, only if the account holder affix thumb impression instead of signature/ e-sign. Communique

6250 and 2021-325 and SEBI Cir SEBI/HO/MIRSD/RTAMB/CIR/P/2021/601 dated July 23, 2021.
(ONLY Individuals can nominate or be appointed as nominee as per communiqué 81 and Operating Instruction Chapter 3)

The IA needs to verify whether the maker checker concept is followed by DP while entering the details in the BOs. As inspection is post mortem job, it would be difficult for the IA to verify whether four-eye principle is followed by DP official during the inspection period. Therefore, presence of adequacy of maker checker system can be judged from the number of cases of account closure by DP, observed due to wrong entry or a mismatch in the BO details mentioned in the AOF and in CDAS.

1.09 Whether BO signatures have been appropriately scanned in CDAS?

Verification Methodology:

The signature of BO scanned in CDAS is used by the DP Officials to scrutinize during the process of settlement of trades or at the time of demat request. Thus, it becomes utmost important for the signature in CDAS to be properly scanned so as to be visible for operational purpose.

The IA should check the real time scanning process followed at the DP's place of operations. Besides this, the IA should check for the sample selected the scanned signatures with the AOF to ensure that the signatures have been properly scanned.

Some of the critical points which the IA should remember while verification of scanned signatures are stated below:

- All the joint holder(s) signatures should be scanned in the system
- In case of POA account, the signature of account holder as well as POA should be scanned in CDAS. (Refer Operating Instruction 2.4.17)
- In case of HUF account, the stamp of HUF should also be scanned along with the signature of the Karta.
- In case of corporate client, the mode of operation should be scanned along with the signature(s) of all the authorized signatories as per the Board Resolution submitted along with AOF.

1.10 Whether nomination is made as per the procedure prescribed in the DP Operating Instruction 3.4.2 and nomination form is duly filled, executed and it has been appropriately entered in to the CDAS?

Verification Methodology:

Any individual BO can appoint multiple nominees (upto three). It may be noted that only an individual can appoint nominee(s) and can be appointed as a nominee. A non-individual BO account holder like Body Corporate, Societies, Trust, HUF, etc. cannot appoint a nominee. Also, POA holder(s) cannot make a nomination request. However, POA holder can be appointed as nominee(s) as per CDSL Communique no. **CDSL/OPS/DP/P OLCY/2020/260 June 11, 2020**.

Mandatory requirement of Nomination:

The DP should mandatorily obtain a nomination form from the BO (Individual, NRI, FN) duly filled and signed by all the holders.

If a BO does not wish to nominate, the option: "I/WE DO NOT WISH TO NOMINATE" in the Nomination Form should be selected. The DP should ensure that the nomination form is duly signed by all the account holders. CDSL has prescribed a format for nomination in Annexure 3.2 of the Operating Instruction. Further, SEBI specified Nomination form or Nomination Opt out form has been specified in Annexure A & B of SEBI Cir SEBI/HO/MIRSD/RTAMB/CIR/P/2021/601 dated July 23, 2021.

IA needs to check that nomination forms accepted by DP are complete in all respect and signed by all the holder(s) of the account.

Following points may be considered by the IA while verification of the Nomination forms:

- The format of the Nomination form should be same as prescribed by CDSL and it is duly filled in;
- All the holder(s) to the account should have signed on the nomination form. For this, the IA should confirm from the Client Master and check whether all the holders as present in the Client Master have signed on the Nomination form;
- In case a minor is appointed as a nominee then such nomination should be represented by his guardian and details of minor and guardian should have been mentioned in

nomination form;

- The nomination should be witnessed by one person only if the client has affix thumb impression instead of signature or e-sign.. The name, address and the signature of such witness should be present on the nomination form;
- NRN should be updated in nomination form;
- All entries in the nomination register should be entered in CDAS and vice-versa;
- All nomination forms received are duly entered in CDAS and recorded in the register (as per communiqué 1424 dated 16.01.2009 and communiqué 1439 dated 28.01.2009);
- Nomination should be done only if the BO is an individual. Refer O.I. 3.4.2
- If a BO chooses to appoint multiple nominees, the BO has to specify the share of securities in terms of percentage which will be distributed ISIN wise equally and the same should total to 100%.
- In case of multiple nominations, if the no of securities are not exactly divisible in the specified proportion in respect of a particular ISIN, the same shall be divided at ISIN level to the extent the securities are divisible and for the remaining securities which are in odd nos. BO has to choose one nominee who will be credited with balance securities if any, remaining after the distribution of securities.
- If the BO fails to mention such nominee entitled for residual shares, the same will be credited to the first named nominee in the nomination form.

The IA should check whether the DP has maintained a register of nomination and the same is duly updated. Following should be the contents of the nomination register (Chapter 3.4.2.1 of Operating Instruction of CDSL).

a) Nomination Registration Number.
b) Date of Registration.
c) BO A/c Number for which nomination is being received.
d) Name of nominee(s).
e) Percentage of share to be paid to the nominee.
f) Name of the nominee eligible for residual shares.
g) Address of nominee(s).
h) If Nominee is a minor, then schedule date of attaining majority.
i) Name/address of the guardian, if nominee is a minor.
j) Remarks.

1.11 Whether modification to account details is done only after accepting account modification form/ letters duly signed by the BO and same has been updated in CDAS and intimated to the BO

Verification Methodology:

The IA should get the DPD1 Report, which are stored in in CDAS report date wise folder or back up tapes, for sample number of days of the inspection period to know the number of modifications done in the Client Master. A change can be of any details as given earlier by the BO in the account opening form Refer O.I. 3.4.10. Following are the commonly observed modifications:

- Change of Address (Permanent or Correspondence);
- Change of Signature
- Change in Bank Details;
- Addition/ Modification or Deletion of Nomination details;
- Addition or deletion of authorized signatories of POA.
- PANCARD modification
- Change in name of BO
- Change of Residential Status of BO (Refer O.I. 3.4.16)

The IA needs to ensure that any change in the client master is backed by either the Account Modification Form (AMF) or a letter containing all the details as required by modification form. The AMF should be in the format prescribed by CDSL in Annexure 3.1of the Operating Instruction and duly completed.

The IA needs to satisfy himself that the change request as given by the BO has been properly recorded in CDAS. For this the IA may obtain account modification forms along with supporting documents and check whether the details mentioned in the AMF is captured correctly in the client master on CDAS. The DP should maintain the hard copies or soft copies of letters sent to BOs confirming modifications done, along with proof of dispatch of such letters sent to BO(s). If the DP intends to maintain/store the system-generated letters (for modifications carried out in BO accounts), in electronic form, then the DP shall ensure that the provisions of the Information Technology Act, 2000 in this regard are complied with.

- Change of name in case of Corporate Clients, FII's:
  - Letter from Corporate/ FII requesting for Change in name.
  - Certified copy of Board resolution, which approves change of name.
  - List of authorized signatories along with specimen signature of authorized signatories verified by Managing Director or Company Secretary.
  - Certified copy of the Fresh Certificate of Incorporation from Registrar of Companies (ROC) / SEBI Registration Certificate in case of FII.
  - Covering letter of DP forwarding the above documents after verifying the signature(s) of the authorized signatories of corporate / FII, in the format specified by CDSL from time to time.

- Change of name in case of Clearing Member (CM):
  - Letter from clearing member requesting for change in name.
  - Certified copy of the Board resolution where the change in name was approved, if applicable.
  - Certified copy of SEBI Registration Certificate with the change in name.
  - Copy of the letter received from the Stock Exchange, where the clearing member is a member acknowledging change in name.
  - List of authorized signatories along with specimen signature with due verification from Company Secretary/Whole-time Director.
  - Covering letter of DP forwarding the above documents after verifying the signature(s) of the clearing member, in the format specified by CDSL from time to time.

  (Refer Operating Instructions 3.4.10.2)

- Addition or deletion of authorized signatories of POA.

  After verification of the documents for setup/modification/cancellation of Power of Attorney, particulars of the same should be recorded in the CDSL system within the prescribed time of receipt of the documents. The powers and authorities conferred by the existing POA shall continue until the request for modification/cancellation is recorded in the CDSL system or within the prescribed time of receipt of the same by the DP, whichever is earlier.

- PANCARD modification

DPs have been allowed PAN modification in CDAS system (maker entry) from July 05, 2019 in PAN/PAN exemption code after the account has been opened irrespective of the "freeze" status of the account and they are required to send the request to CDSL. DPs are required to upload the scanned copy of PAN having the stamp and sign of DP official along with stamp of "Verified with original" and "PAN verified with income tax site". Refer Communique DP2019-337 dated July 05, 2019.

- Change in Demographic Details

DPs may permit BOs to modify/update only those details which do not require any documentary proof to be submitted by the BOs to the DPs. Addition, modification, deletion to BOs Demographic (Master) details in accounts can be made through a secured URL with 'https' with specific login and password provided by the DP through its website. (Refer Communiqué 2532 dated 30.06.2011).

. DPs have been informed about validation of PIN code while entering in CDAS vide communique no. 2760 dated 14-12-2011. If country is India then Pin Code will be validated i.e. length of Pin Code should be exactly 6 digits and that specific Pin Code should be present in Pin Code master at CDAS system

The DP shall retain the originals of the documents received from the BO.

1.12 In case of change of address of the BO,

a. Whether proof of new address is obtained and the same is self-attested?

b. Whether confirmation letter is sent to the BO at old as well as at the new address?

c. Whether in case of change in name of Individual / Non-individual BO, prescribed procedure is followed. (Refer Communique no 3307,3915 & DP2019-17)

Verification Methodology:

The IA shall refer to the Operating Instruction 3.4.1 of CDSL for the procedure of modification of address.

The modification of address in client master should be made on the basis of AMF or Change

request letter from the BO substantiated by a proof of new address as prescribed by CDSL (as mentioned in Chapter 2.3 of CDSL Operating Instruction). The AMF should be signed by all the joint holder(s) or authorized signatories as the case may be.

In case of change in address of a corporate, the requirement of obtaining of Form 18 (for change within the state) and Form23 (for change outside the state) has been done away with as per Communiqué 2508 dated 20.06.2011.

Self-attested photocopy of the documents by the BO supporting modification request should be authenticated by DP official by signing and affixing the stamp **"**Verified with original".

In case of change in address in CDSL system and KRA both the DP has to follow the procedure prescribed by the KRA for modification in address and also effect the change in address in CDSL system.

In case of change in correspondence address, the BO should inform the DP as to whether the change should be affected in KRA and CDSL system or only in CDSL system. If the change is to be affected in KRA, the procedure as prescribed by KRA should be followed by the BO.

The inspecting officer should also ensure that the DP sends a system-generated letter confirming change of address to the BO, at old as well as new addresses. This can be verified by scrutinizing the proof of dispatch maintained by the DP.

The IA shall refer to the Operating Instruction 3.4.10 of CDSL, SEBI Circular CIR/MRD/DP/158/2018 dated December 27, 2018 for the procedure to be followed in case of in case of change in name of Individual / Non-individual BO.

- Change in Name of Individual

  As per communiqué no. 3918 in case of change of name of the BO, following documents are to be obtained

  1. Change in name on account of marriage/ /Divorce
     - Copy of Marriage Certificate/ Divorce Certificate or
     - Copy of Passport showing husband's name or

- Publication of name change in official gazette.

2. Change in name on account of reasons other than marriage
   - Publication of name change in official gazette.

3. Change in father's name
   - Publication of name change in official gazette.

The DP shall retain the originals of the documents received from the BO.

➢ Change in Name of Non-Individual

As per Communiqué 3915, along with the account modification form duly signed by account holder(s), self-attested copies of following documents should be collected by DPs for name change.

1. Change in name of Corporate / FII
   - Letter from Corporate / FII requesting for change in name.
   - Certified copy of the Board resolution where the change in name was approved.
   - Certified copy of the Fresh Certificate of Incorporation from Registrar of Companies (ROC) / SEBI Registration Certificate in case of FII.
   - List of authorized signatories along with specimen signature with due verification from Managing Director/Company Secretary.

2. Change in name of Clearing Member
   - Letter from clearing member requesting for change in name.
   - Certified copy of the Board resolution where the change in name was approved, if applicable.
   - Certified copy of SEBI Registration Certificate with the change in name.
   - Copy of the letter received from the Stock Exchange, where the clearing member is a member acknowledging change in name.
   - List of authorized signatories along with specimen signature with due verification from Company Secretary/Whole-time Director.

The above procedure is applicable only if CM ID remains unchanged.

3. In case of amalgamation / scheme of arrangement of the entity registered under the Companies Act, 1956,
   - Letter from Corporate / FII requesting for change in name.
   - Certified true copy of court order sanctioning the amalgamation / Annexure - A
   - Communiqué no CDSL/OPS/DP/POLICY/3918 dated September 13, 2013 Page 5 of 6 scheme of arrangement.
   - Form no. 21 filed with the Registrar of Companies along with ROC receipt showing the payment of fees as generated from the website of Ministry of Corporate Affairs.

Rectification of name due to typographical error at DPs end or minor correction in name (Communique DP2019-17):

The DP can modify the name of the BO in CDSL system, if it is observed that the name as given by the BO in the account opening form has been wrongly entered by the DP in CDSL system. The DP should keep following documents on record for name change:

i. Copy of the demat account opening form showing details of the name as filled by the BO.
ii. Copy of the PAN card, checked and verified for the name of the BO.

The minor correction in name will include following types of cases:

i. Correction of spelling mistakes, if any.
ii. Expansion of the name by incorporating the fully expanded name and/or addition of middle name.
iii. Abbreviation of name.

IA should verify whether DP has obtained following documents:

i. Modification form (Annexure B) duly filled & signed by account holder whose name to be corrected
ii. One proof of identity as per O.I. 2.3.1
iii. Confirmation from demat account holder stating that there is no change in name for any reason such as marriage, divorce, court order

1.13 In case of change of signature of the BO, whether procedure as prescribed by CDSL is followed? (Refer operating instruction 3.4.8 & 3.4.14) and mode of operation is specified correctly in the CDAS and Back office system.

Verification Methodology:

The IA should get the DPD1 Report which are stored in Q drive or back up tapes, for sample number of days during inspection period to know the number of modifications done for change in signature of the BO.

Signature forms the base on which the authenticity of the client is cross verified before allowing any transactions / operations through his account. Thus, it becomes imperative for the DP to execute the signature modification task with utmost caution. The procedure is stated by CDSL in Operating Instruction 3.4.8. and Communiqué 398 dated April 16, 2004

The IA should check whether the AMF or the Signature Change Request Letter is complete and signed by all the holder(s) or the authorized signatories. Such request should contain Old signature as well as specimen of the new signature and the new signature must be attested by the BO's banker

In case of change in signature in CDSL system and KRA both, the DP has to follow the procedure prescribed by the KRA for change in signature and also effect the same in CDSL system.

In case of change in signature, the BO should inform the DP as to whether the change should be affected in KRA and CDSL system or only in CDSL system. If the change is to be effected in KRA, the procedure as prescribed by KRA should be followed by the BO. If any change request for signature does not have old and new signature, the IA should check whether the BO had visited the DP personally with a valid proof of identity.

The IA should check the postal records or the outward dispatch records to verify whether the DP has sent a confirmatory letter generated by the system to the BO informing about the completion of signature change in the system as stated by the BO.

1.14 Whether Bank account details with proper proof has been obtained and entered in CDAS as per operating instruction 3.4.15?

Verification Methodology:

While opening the demat account, obtaining of Bank account details has been made mandatory. DP should collect the proof as mentioned in operating instructions 3.4.15.

The IA should report in case if the Bank details as mentioned on AOF are not entered in CDAS and not tallying with the proof submitted. Also, in case of non-availability of MICR code, the dummy code as required to be obtained from CDSL is not so obtained and bank details not entered in CDAS. In case of Modification to the existing bank account details, the procedure prescribed and documents to be collected should be followed. (Operating instructions 3.4.15). IA should check Account modification forms with the information available on modification from the module 'Non Financial History' to know the modifications done in CDAS. In case of PMS accounts, bank account details of BO only should be taken on record and entered in CDAS. (Communiqué 1931 dated. 22-03-2010.)

The IA should note that in case of Bank DPs, where a BO is having banking relationship with the Bank and has also provided the same Bank details for the demat account, then the Bank DP need not obtain proof of such bank details as per the amendments to Operating Instruction 3.4.15 and Communiqué no 2481 dated June 02, 2011.

1.15 Whether accounts are opened in the name of partnership/ proprietorship firm except in the case of CM/Pool/CISA/Principal and commodities accounts?

Verification Methodology:

As per CDSL Operating Instruction 2.4.5, BO accounts in the name of the Proprietorship Concern or Partnership Firm cannot be opened in CDSL system. However, as per CDSL Communiqué 1807 dated 4.12.2009 the opening of securities CM Pool/Principal/CISA/Early Pay in accounts in the name of proprietorship/partnership firm's name can be opened. Limited Liability Partnership Firm Account

As per communiqué 1748 dated 20.10.2009 and as per operating instruction 2.3.19 Limited Liability Partnership Firm Account (which is registered under the Limited Liability Partnership Act, 2008 can be opened in the style of "Company Name" Limited liability Partnership or "Company name" LLP. For details and documents IA should refer operating instructions 2.3.19.2 or communiqué 1807.

1.16 (a) Whether the DP gives notice of at least 30 days before revising the charges?
(b) Whether the DP levies charges to BOs for account opening, accounts closure etc.?

Verification Methodology:

As per DP BO Rights and obligations clause no. 7 the DP is entitled to revise the fees, charges or deposits from time to time provided however that no increase therein shall be affected by the DP unless DP shall have given at least one month's notice in writing to BO in that behalf.

As the charges are not captured in CDAS, if the DP has back office, the IA can check such compliance by verifying the date of dispatch of the notice to the client with the system log containing the date of modification in the charges schedule of the clients.

In this regard, the IA should spool the client master from the back-office software and track the changes done in the charges. The IA should then check the dispatch records to know the date of dispatch of notice intimating the client about the modification of the charges. The IA should compare the date of modification of the charges in the client master with the dispatch records to ensure whether the DP has sent a notice to the client intimating the modification in the charges schedule at least thirty days prior to such revision.

If the DP does not have back office, the IA can compare the bills generated, for sample BOs, at the start of the audit period and end of the audit period to check whether any change in the tariff structure had taken place. Display of Tariff structure on CDSL's Website:

Communiqué CDSL/OPS/DP/851 dated February 22, 2007, wherein DPs were advised to disseminate their tariff / charges structure to CDSL's website, through their DP login. Further, DPs are required to mandatorily submit their tariff/charges structure to CDSL and disseminate on the website latest by April 30 every year. DPs are required to upload tariff structure as per the procedure given in communiqué 3611 dated 09.04.2013. In case of no change in tariff already available on CDSL's website then the DP has to click on "No change in tariff" option available in "Create/ Modify Tariff" link. DPs are not required to submit the hardcopy of the tariff to CDSL which is uploaded by them through their DP easiest login. DP should also ensure to follow guidelines given by SEBI circular MRD/DoP/SE/Dep/Cir-4/2005

dated January 28, 2005 (Communiqué 4991). DP should mandatorily use 'easiest' facility to execute transactions of their clients as a contingency measure. (Communiqué 4851/5218)
DPs are advised to ensure that as and when a revision in their tariff structure is affected, the revised tariff structure should be updated as per instructions in Communiqué CDSL/OPS/DP/ BLING/3611 dated April 09, 2013;

IA should check whether DP does follow the dissemination of their tariff / charges structure to CDSL's website and also as and when a revision in their tariff structure is affected. Any adverse observations emerging out of verification needs to be reported in the inspection report along with instances.

(b) Whether the DP levies charges to BOs for account opening, accounts closure etc.?

Verification Methodology:
IA shall refer to SEBI Circular no MRD/DoP/SE/Dep/Cir-4/2005 dated January 28, 2005 regarding "fees /charges to be paid by BO" whereby SEBI has given the guidelines as under:-

a) No investor shall be required to pay any charge towards opening of Beneficiary Owner (BO) Account except for statutory charges as may be applicable.
b) No investor shall be required to pay any charge for credit of securities into his/her BO account and
c) No custody charge shall be levied on any investor who would be opening a BO account on or after February 1, 2005
(refer Communique 4991 dated 10.02.2015)

IA should check from back office system, the BOs' ledger folio, for billing done by the DP to ensure whether any charges have been levied in respect of account opening, account closure etc. for new accounts opened or accounts closed. If the DP does not have back office system, the IA can check from the copies of physical billing done and dispatched to the BOs.

As per SEBI circular dated 1.07.2010 and communiqué 2037 dated 2.07.2010, in the event of closing of the demat account or shifting of the demat account from one DP to another, the AMC collected upfront on annual/half yearly basis by the DP, shall be refunded by the DP to

the BO for the balance of the quarter/s. The AMC for the balance period for which no service has been provided by the DP, should be refunded to the BO.

Any adverse observations emerging out of verification needs to be reported in the inspection report along with instances in the points (a) and (b).

1.17 Whether the Tariff Sheet has been signed by the BO at the time of account opening.

Verification Methodology:
IA should check as to whether Tariff Sheet has been signed by the BO at the time of account opening

1.18 Whether minor account is opened as per operating instruction 2.3.3?

Verification Methodology:

Minor's Account: As per operating instruction 2.3.3 the minor should be the first and sole holder in the account. There should not be any joint accounts where a minor is a first/second/third holder. Opening of new account with Minor as joint holder (either first/second/third joint holder) has been restrained from opening from 1st January 2008. DPs were advised to close such accounts on or before 31st March 2008. Date of birth of the minor should be captured in CDAS system as per birth certificate of the minor. (Communique 1841 dtd.4.01.2010).

IA should analyze DPS8/DPS9 report, scrutinizing birth date of the account holder and check whether DP has opened minor accounts. Thereafter IA should check whether DP has opened minor account jointly with others either as a first/second or third holder. If so, such discrepancy should be pointed out in the report.

No joint holders will be allowed for demat account of the minor (Refer Communiqué 1623 dated 22.06.2009).

1.19 Whether all KYC documents are self-attested by the BO(s) as per operating instructions 2.4.14 (Communiqué 1500). All KYC documents (including modification of address) are self-attested by the BO(s) as per communique 2675

Verification Methodology:

As per operating instruction 2.4.14 the BO shall submit the account opening form along with the relevant documents to the DP. The DP should ensure that all KYC documents are self-attested by the BO(s).

IA should check all KYC documents received from BOs, from the accounts selected as samples, that the same are self-attested by the BO(s). In case of any deviation, the same should be pointed out as non-compliance.

1.20 Whether Valid/ factually correct/ meaningful data has been entered in demographic details?

Verification Methodology:

IA Shall refer to the operating instruction 2.3.1 & 2.3.2,
DPs are required to comply with SEBI Circular no. MIRSD/SE/Cir-21/2011 dated October 5, 2011 regarding KYC documents admissible as Proof of Identity and Proof of Address and additional documents to be obtained from individuals and non-individuals, over and above the proof of identity and proof of address. DPs are also required to comply with SEBI Circular No. MIRSD/Cir-26/2011 dated December 23, 2011 providing the guidelines for intermediaries, in-person verification and subsequent circulars issued by SEBI from time to time in this regard including SEBI circular no. CIR/MIRSD/1/2015 dated March 04, 2015.

If correspondence address of the BO is not the same as permanent address, then the DP shall obtain proof of correspondence address and enter the same in the system, in case the BO is not registered with KRA.

If the BO is registered with KRA and wants to use the same correspondence address mentioned in the KRA system, the BO will inform the DP accordingly.

If the BO is registered with KRA and does not want to use the correspondence address mentioned in the KRA system, the BO will inform the DP and submit SEBI specified proof of address document for the address to be entered on CDSL system.

As per SEBI Circular No. CIR/MRD/DP/37/2010 dated December 14, 2010, address of a third party as a correspondence address, may be captured in a BO account provided that the Depository Participant (DP) ensures that all prescribed 'Know Your Client' norms are fulfilled for the third party also. The DP shall obtain proof of identity and proof of address for the third party. The DP shall also ensure that customer due diligence norms as specified in Rule 9 of Prevention of Money Laundering Rules, 2005 are complied with in respect of the third party.

Where third party address is accepted as correspondence address, the DP shall ensure that proof of permanent address for the BO has been obtained and the same has been entered in the system. DPs should ensure that the statement of transactions and holdings are sent to the BO's permanent address atleast once in a year.

In case of PMS accounts, portfolio manager's address cannot be captured as correspondence address.

IA should therefore check the information on AOF with the documents and data entered into CDAS system about the BOs and ascertain that no invalid/factually incorrect /meaningless data is entered in demographic details in CDAS system. In case of any deviation, the same should be pointed out as non-compliance.
Any negative observation emerging out of the aforesaid areas needs to be separately stated by IA in the report along with instances.

1.21 Whether the Client Master Report has been provided to the BOs. (Through email, physical, through DP's web site etc.)

Verification Methodology:

IA shall refer to the Operating Instructions 2.4.21.

The DP shall send the BO a system-generated confirmation letter for having opened the account mentioning the account number along with the formats of necessary forms and instruction slips. This letter shall be given to the BO and the DP shall maintain proof of such despatch. The letter along with other documents mentioned earlier may also be given to the BO if the BO wants to collect the same in person. Proof of such delivery shall be maintained by the DP. Alternatively, the client master report may be provided by the DP to the BO at the email address recorded in the CDSL system or through its website, provided the same can be accessed by the BO through secured access-e.g. Login ID Password / three factor authentication. In case the DP is not able to provide the same by email / the BO cannot access the same through its website due to any reason (including bounced emails), the DP should ensure that the same is provided to the BO in paper form. The DP should maintain record of delivery/ non-delivery of the emails to the BO or accessing of the information by the BO through its website. The BO should be informed at the time of account opening that such information will be made available through email /website, as the case may be.

1.22 Information has been obtained from clients, to identify and verify the identity of persons who beneficially own or control the securities account (i.e. Ultimate Beneficial Owner) as per SEBI, PMLA and CDSL guidelines (especially for non-individual clients) Refer communique 3451 dated January 25, 2013

Verification Methodology:

IA shall refer to SEBI Circular no. **CIR/MIRSD/2/2013** dated January 24, 2013 (Communique 3451 dated **January 25, 2013**

Prevention of Money Laundering Rules, 2005 require that every banking company, financial institution and intermediary, as the case may be, shall identify the beneficial owner and take all reasonable steps to verify his identity. The Government of India in consultation with the regulators has now specified a uniform approach to be followed towards determination of beneficial ownership. Accordingly, the intermediaries shall comply with the following guidelines.

A. For clients other than individuals or trusts:

Where the client is a person other than an individual or trust, viz., company, partnership or unincorporated association/body of individuals, the intermediary shall identify the beneficial

owners of the client and take reasonable measures to verify the identity of such persons, through the following information:

a. The identity of the natural person, who, whether acting alone or together, or through one or more juridical person, exercises control through ownership or who ultimately has a controlling ownership interest.
Explanation: Controlling ownership interest means ownership of/entitlement to:
i. more than 25% of shares or capital or profits of the juridical person, where the juridical person is a company;
ii. more than 15% of the capital or profits of the juridical person, where the juridical person is a partnership; or
iii. more than 15% of the property or capital or profits of the juridical person, where the juridical person is an unincorporated association or body of individuals.

b. In cases where there exists doubt under clause 4 (a) above as to whether the person with the controlling ownership interest is the beneficial owner or where no natural person exerts control through ownership interests, the identity of the natural person exercising control over the juridical person through other means.

Explanation: Control through other means can be exercised through voting rights, agreement, arrangements or in any other manner.

c. Where no natural person is identified under clauses 4 (a) or 4 (b) above,
the identity of the relevant natural person who holds the position of senior managing official.

B. For client which is a trust:
5. Where the client is a trust, the intermediary shall identify the beneficial owners of the client and take reasonable measures to verify the identity of such persons, through the identity of the settler of the trust, the trustee, the protector, the beneficiaries with 15% or more interest in the trust and any other natural person exercising ultimate effective control over the trust through a chain of control or ownership.

1.23 DP has made the provision in the Demat Account Opening form to mention the UCC details of the sole / first holder of Demat Account. (Ref.Comm.141 Dt. March 16, 2020)

Verification Methodology:

IA shall refer to SEBI Circular no SEBI/HO/MIRSD/DOP/CIR/P/2019/136 dated November 15, 2019/ Communique 2019-580 and communique 2020-141 dated March 16, 2020.

1.24. DP has obtained UCC details along with corresponding exchange ID at the time of demat account opening from their clients.

DPs are required to obtain UCC details along with corresponding exchange ID at the time of demat account opening from their clients. Provision should be made in the Demat Account Opening form to mention the UCC details of the sole / first holder of Demat Account. Refer Annexure 2.1 in case of Individual account and Annexure 2.2 in case of Non- Individual account.

1.25. DP has properly processed addition/deletion request of UCC details of sole/first account holder.

When the DP maps a UCC to a BOID and if the said details are not present in UCC data provided by exchanges then that UCC will remain in "To be verified" status until exchange provides the data to the depositories. In case a DP sets-up a deletion request of UCC mapping on T-day then the same will be deleted on T+3 day at Start of Day [SOD] and DPs can add / delink multiple UCC for a single BO / PAN.

1.26 In case of online on-boarding of client using Aadhar based e-KYC facility, the DP is in compliance with e-KYC authentication guidelines for Resident Investor as per SEBI Circular no. SEBI/HO/MIRSD/DOP//CIR/P/2019/123 dated November 05, 2019

1.27 In case of online on-boarding of client where intimation letter is returned for wrong / incorrect address, addressee not available etc, DP has not allowed any transactions in such account. (Refer SEBI circular SEBI/HO/MIRSD/DOP/CIR/P/2020/73 dated April 24, 2020)

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1.29 The DP has obtained express consent of the investor before undertaking online KYC.

1.30 The DP has accepted only officially Valid Document (OVD) with e-sign

1.31 The DP has mandatorily captured Live photograph of the client with time stamping and geo- location tagging and liveliness check for the accounts opened with online KYC through the Aadhaar as OVD, any other OVD or through download of KYC from KRA.

1.32 The DP has verified the e-sign of the client (BO) on the basis of Name, Gender, Year of Birth mentioned in the e-sign certificate and is comparing the same with the client details available in its record.

1.33 The DP has inserted cropped signature (cropped from a signed cancelled cheque or signature on a white paper or signature made on the screen of a device) of the BO in the place holders of the KYC form and displayed it to the BO before e-signing the document by BO or has obtained scanned copy/ photograph of the KYC form the BO with his wet signature under esign.

1.34 The DP has obtained photograph/scanned copy of PAN under the e-sign of the BO or e-PAN provided by BO through Digilocker which are issued directly by issuing authority to Digilocker

1.35 In case where Bank account details could not be verified (match fails or does not return joint account holder name) by Penny Drop mechanism or any other mechanism using API of the Bank; the DP has obtained signed cancelled cheque as a photo/scan of the original under eSign of the BO.

1.36 The DP has forwarded KYC completion intimation letter through registered post/ speed post or courier, to the address of the investor in cases where the investor has given address other than as given in the OVD.

1.37 The DP has frozen the BO account for further transactions in the depository and intimation sent to the client on mobile number and email id or on the permanent address of the client where the investor has given address other than as given in the OVD have been returned undelivered

1.38 The DP has obtained proof of identity, in addition to PAN card as specified under the rule 2(d) of the PML rules.

1.39 In case of VIPV is undertaken activity logs along with the credentials of the person performing the VIPV are maintained by the DP.

1.40 The VIPV has been undertaken in a live environment.

1.41 The VIPV undertaken is clear and still and the investor in the video is easily recognizable and is not covering his/her face in any manner.

1.42 The VIPV process is included with random question and response from the investor including displaying the OVD, KYC form and signature or confirmed by an OTP.

1.43 The DP has ensured that photograph of the customer downloaded through the Aadhaar authentication / verification process matches with the investor in the VIPV.

1.44 The VIPV has been saved in a safe, secure and tamper-proof, easily retrievable manner and shall bear date and time stamping.

1.45 In cases where the proof of possession of Aadhaar number is submitted as OVD the Aadhaar number is redacted or blacked out and the DP has not stored/saved the Aadhaar number of the BO in their system.

1.46 The software and security audit and validation of online account opening App has been carried out periodically.

1.47 The verification process of mobile and email carried out through One Time Password (OTP) or other verifiable mechanism is included in the software and security audit and validation of account opening App.

1.48 The DP has displayed the KYC details as downloaded from the KRA in case of online account opening and confirmed with the client that there is no change in the details downloaded from KRA. In case of any change in the details, an option is provided to the client to provide the latest details along with supporting documents

1.49 DP has obtained nomination details/declaration for opting out of nomination as per format prescribed by SEBI vide circular no. SEBI/HO/MIRSD/RTAMB/CIR/P/2021/601 dated July 23, 2021 from account holders who have opened demat account on or after October 01, 2021

IA to refer following communique/SEBI Circulars in reference to which inspection checklist points from 1.26 to 1.48 on Ekyc/Online account opening by Depository Participants

communique 2019-560 dated November 06, 2019

communique 2020-203 dated April 27, 2020

communique 2020-226 dated May 13, 2020

communique 2020-444 dated October 14, 2020

1.50 To 1.53

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

IA to refer communique DP2022-458 dated August 11, 2022 for Sikkim based BOs demat account and check the action taken by DPs. In case of any discrepancy observed same to be brought to the notice of DP for corrective steps as per guidelines.

1.50 In case demat account having correspondence or permanent address of Sikkim, the address mentioned in the depository system is matching with the documentary proof provided by clients and confirm the address is of Sikkim state.

1.51 In case of discrepancies observed in verification of Sikkim based account opened during the audit period, DP has frozen demat account and the same is informed to the client for rectification of records.

1.53 DP has unfreezed the demat account of Sikkim based BOs only after receipt of rectified documents from the BO and are found in order after due verification

1.54 DP has informed BOs deficiency / inadequacy in their KYC documents as intimated by KRA after validation in accordance with SEBI circular No. SEBI/HO/MIRSD/DoP/P/CIR/2022/46 dated April 06, 2022.

1.55 DP has uploaded revised KYC documents on KRA system obtained from BO for validation of KYC

1.56 DP is complying with the following guidelines issued by SEBI vide circular no. SEBI/HO/MIRSD/DoP/P/CIR/2022/46 dated April 06, 2022 - Clients whose KYC records are not found to be valid by KRA after the validation process shall be allowed to transact in securities market only after their KYC is validated.

1.57 DP has sent intimation to BOs after freezing of 6-KYC non-compliant demat accounts found, (if any) during the audit period, via letter/ email/ SMS or any other mode and record of the same is maintained.

1.58 DP has obtained FATCA/CRS declaration from the BOs.

1.59 The DP is in Compliance with SEBI Circular on Implementation of the Multilateral Competent Authority Agreement and Foreign Account Tax Compliance Act

Part 4 - Other Critical aspects w.r.t. Account Opening

Some of the critical areas which the IA should take note during inspection has been stated as below:

- The Inspector needs to verify that standing instruction for credit to client account is enabled /disabled in the system as per the option selected by the BO in account opening form.

- IA should verify whether the Schedule of charges is provided / made available to the BO.
- IA should check in CDAS whether there are any accounts pending for activation and inquire with DP official w.r.t. reason of these cases.
- As per amendment to DP operating instruction chapter 2 point 2.3.3 and as advised to DPs vide communiqué 1010 dated December 28, 2007, the minor should be the first and sole holder in the account. There should not be any joint accounts where a minor is a First/Second/Third joint holder.

  (i) DPs have been advised that Opening of new accounts with Minor as joint holder should be discontinued.

  (ii) DPs having such minor accounts held in joint names and where a minor is one of the joint holders, DPs were advised vide the said communiqué to inform the account holders to close such accounts on or before 31st March 2008.

- A BO with a particular status like individual, FI, FII, NRI, Corporate, etc is further bifurcated into sub status like Individual- Director, Individual- Director Relative, Individual Promoter, Corporate- Promoter. The various sub status has been given by CDSL in Communiqué 682. As per CDSL Operating Instruction 2.4.17, the DP has to ensure that a separate BO account is opened for each BO sub status. The IA should get the DPS8/DPS9 Report generated from CDSL. The IA should then filter the sub status column of the report-containing promoter to get the account details pertaining to sub status “promoter”. On random basis, IA should check whether the account opening form or account modification form specifically states the sub-status as ‘promoters’

Any negative observation emerging out of the aforesaid areas needs to be separately stated by IA in the report along with instances.

Part 5 - Probable area of discrepancies in Account Opening

Some of commonly observed discrepancies are stated below which would help inspection team in assessing the probable areas of mistakes done by Depository Participants:

1. Adequate proof for identity and address as prescribed by CDSL are not collected by DPs and the cases pertaining to 'In Person Verification' not done as per Communiqué 978. (Demat accounts opened on or after 22.10.2007)
2. Photocopies of proof of documents verified / authenticated by persons other than authorized DP official.
3. PAN not/ wrongly mentioned in AOF.
4. Telephone/ Electricity Bill submitted as proof of address more than 3 months old.
5. Acknowledgement of submission of Rights and Obligations to BOs after account is activated in CDAS.
6. Account opened in the name of Partnership firm or Sole Proprietorship. However, Demat account only for commodities can be opened in the name of Partnership.
7. Format of the Account opening Form or DP-BO Rights and Obligations not in the prescribed format of CDSL/ SEBI
8. Guardian details not provided for account opened by Minor or when minor is the nominee.
9. Bank details mentioned on AOF but not entered in CDAS. In case of non-availability of MICR code, the dummy code not obtained from CDSL and bank details not entered in CDAS.
10. No declaration attached for account opened by HUF.
11. No signature of witness on Account opening form.
12. In case of Corporate Clients, specimen signatures /Photographs of all the signatories not collected by the DP with the AOF.
13. The Nomination form is not signed by witness.
14. Nomination details not captured in system as per the information provided in the AOF.
15. No DP stamp affixed or signature of authorized DP official on AOF.
16. "VERIFIED WITH ORIGINAL" stamp not affixed on the proofs obtained.

CDSL issues communiqué from time to time for commonly observed discrepancies.

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Module II – Dematerialization

Preamble:

The system of physical settlement of shares had suffered from many shortcomings. In many cases the process of transfer would take longer time than stipulated and a significant proportion of transactions would end up as bad delivery due to faulty compliance of paper work. Theft, forgery, damage of securities and other irregularities were rampant. All this added to cost and delays in settlement and also restricted the liquidity.

These problems were answered to a large extent with the introduction of dematerialization of securities. Under this process of Dematerialization, physical shares are converted into electronic book entry. This envisages processing of securities transactions without effecting physical movement of share certificates.

The process of dematerialization entails receiving Demat Request Form (DRF) from BO along with the physical share certificates, verifying the completeness of details entered in DRF with the shares certificates, defacing it with the words “Surrendered for dematerialization” along with DP ID and BO ID, setting up of Demat request in CDAS for generating DRN, recording the same on the DRF, forwarding it to the issuer company/ RTA along with the share certificates and follow-up with the issuer / RTA for pending demat / rejections.

The documents are scrutinized at the Issuer company/ 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 who in turn returns it to BO. However, in other few cases of rejections like ‘fraudulent certificates’, certificates are not sent back to the DP.

As per Regulation 38, of SEBI (Depositories and Participants) Regulations, 1996 it is mandatory for the participant to maintain records of securities so dematerialized. As per Regulation 54(4), of SEBI (Depositories and Participants) Regulations, 1996, participant needs to send DRF along with the physical certificates within 7 days from the day of receipt.

The IA may refer to Chapter 4 of the CDSL Operating Instruction to become familiar about various requirements laid down by CDSL w.r.t. dematerialization.

Part 1 - Sample Selection

To start with the verification process, the IA should first get a list generated through CDAS i.e. **DP24 report**, for knowing the numbers of Demat requests set up in CDAS during the inspection period. This would help in preparing the sample plan for verifying the process of Dematerialization. The sample should be selected as mentioned in **Chapter 3**.

Part 2 - Methodology

The clause wise methodology for verification is stated as below:

2.01 (a) Whether the Demat requests/MF DRFs are accepted and processed as per procedure laid down by CDSL?

(b) Whether DP has a system of inward of Demat request (DRF)/MF DRF received which clearly gives information about date of receipt of DRF from BO?

(c) The DP before accepting demat request checks with the list of companies with the maximum pending demat request provided by CDSL

Verification Methodology:

CDSL has laid down the procedure to be followed by the DP w.r.t. acceptance and processing of demat requests from the BO in CDSL Operating Instruction 4.4.

DRF is to be filled in duplicate by the BO and submitted to DP. Original form along with defaced certificates is sent to the company/registrar for converting shares in dematerialized form, copy of the DRF remains with the DP.

MF-DRF completes in all respect as per O.I. 18.4.2.7 should be accepted by DP and procedure given O.I. 18.4.2 should be followed. Mf-DRF complete in all respect should be acknowledged to the BO by the DP. The date and time of receiving the MF-DRF should be affixed by DP.

The IA needs to check whether the above-referred procedure is appropriately followed by the DP.

a. Verification of procedure followed for acceptance of Demat Requests of securities:

The procedure which DP needs to follow before accepting DRFs from the BO and methodology which would assist IA for the verification is outlined below:

- Whether the DRF is duly filled w.r.t.
  - BO Account Number
  - Name(s) of the holder(s)
  - ISIN
  - Name of the Issuer
  - Type of Security
  - Total quantity to be dematerialized
  - Certificate Details: Folio No., Distinctive Nos., Certificate Nos., Number of Securities, face value
  - Lock-in reason & Lock-in release date, if any.

To verify this, IA needs to check for the sample selected whether DRFs received by DP during the inspection period are complete w.r.t. aforesaid details from the copy of the DRF maintained at DP. IA can check this procedure on real time basis also to ensure whether official has affixed a receipt stamp only after ensuring that DRF is complete w.r.t. aforesaid details.

- The DRF is signed by all the holder(s) to the account in the Columns made available for "Signature with DP" and "Signature with RTA" and signature so done in the field "Signature with DP" in the DRF matches with that of the specimen signature with the DP. To verify this, IA should compare the details mentioned on the DRF with details of the BO master to check following minutiae:
  - BO ID
  - Names of BOs
  - Order of names of demat account holders
  - Signature of BOs

- **The security stated in the DRF is available for dematerialization with CDSL.**

For this, CDSL provides an updated ISIN master on regular basis containing the securities which are available for dematerialization at CDSL. These ISIN master forms the basis of verifying the availability of securities for demat in CDSL. Thus, IA needs to check whether the

DP has made available the updated ISIN Master to DP personnel at the inward counter to discern the securities which are available for dematerialization.

Further, the IA should check the real time procedure followed by the DP for acceptance of DRF from the BO and must ascertain whether the person deputed for such exercise at the inward counter is aware of the procedure laid by CDSL. Accordingly, the IA should verify whether the person at the inward counter checks the ISIN Master for availability of scrip and Client Master to tally the name appearing on the certificates with that in the client master before accepting the DRF. This can be ascertained from the number of DRF rejections by issuer / RTA on account of "ISIN not available for Demat". It is also pertinent to verify the procedure followed for accepting DRF at branches thus, the IA should at the time of selecting the sample for DRF, scrupulously select the DRFs received at CC/ Branch level.

Implementation of the process followed at CC / branches can be judged from the number of DRF rejections by Main DP on account of "ISIN not available for Demat "which were accepted by CC/branches. IA should also discuss the process followed at CC/Branches with the concerned officials at DP.

IA should verify whether the DRF submitted along with the Share Certificate and all the details in the Share Certificate like Folio Number, Face Value of Shares, Certificate Number, Distinctive Share's Number, Quantity, etc. matches with that stated in the DRF. Also IA should check that the Participants has checked the Distinctive Numbers of certificates of securities submitted by its clients for dematerialisation with the records of Distinctive Numbers made available by the depository and ensured that the appropriate International Securities Identification Number [ISIN] is filled in DRF, as applicable.

This can be checked only on real time basis for the DRFs received by DP during the inspection. This can also be identified from the number of rejections by issuer/RTA during the period on account of mismatch of details.

(b) Whether DP has a system of inward of Demat request (DRF)/MF DRF received which clearly gives information about date of receipt of DRF from BO?

CDSL has laid down the procedure to be followed by the DP w.r.t. acceptance of demat request

from (DRF) from the BO in CDSL Operating Instruction 4.4 and sub point 4.4.8. The IA needs to check whether the DP appropriately follows the above-referred procedure.

If the DRF is complete in all respects, the DP should give an acknowledgement to BO. Date of receiving the DRF should be written on the DP's copy of DRF and on the acknowledgement to the BO. The authorized official of DP should sign it. The inward date should be recorded in demat register. This procedure will help to ensure that DP dispatches the DRF within 7 days of receipt of the DRF from BO to RTA/Issuer.

Procedure for Dematerialization of MF units represented by statement of accounts: (Operating instruction 18.4.2)

1. The investor will have to submit the request letter to AMC/RTA along with latest statement of account.
2. After receiving the physical documents, AMC/RTA shall compare the physical documents with electronic data. (Ref : Chapter No 18.4.10 of Operating Instruction)
3. If the details match / tally between the physical records submitted by the BO with the electronic records kept by the AMC/RTA, the BO account shall be credited with MF units. (Ref : Chapter No 18.4.11)
4. If the details match / tally between the physical records submitted by the BO with the electronic records kept by the AMC/RTA, the BO account shall be credited with MF units. (Ref : Chapter No 18.4.11)
5. In cases where the destat request is for the entire quantity (option 'ALL') AMC/RTA shall confirm / reject the entire balance (which is available at the time of confirmation) / partial balance in the respective folio with them. (Ref : Chapter No 18.4.12)
6. In case of mismatch of the quantity of units represented by the statement of account and the electronic records of AMC/RTA, the AMC/RTA shall credit the BO account with such number of units as are requested by the BO and available in the records of AMC/ RTA. Balance units, if any, are to be rejected by the AMC/RTA. (Ref : Chapter No 18.4.13)
7. For other types of mismatches, AMC/ RTA may reject the DRN. The MF-DRF and SOA shall be returned to the DP under a Rejection Memo, specifying the reason for rejection. (Ref : Chapter No 18.4.14)
8. In case of rejection, the DP shall forward the rejection letter sent by the AMC/RTA to the concerned BO within 7 days from receipt of the same. (Ref : Chapter No 18.4.17)

9. Separate MF-DRF request should be submitted for each lock in reason/ expiry date combination ISIN wise.

For further details, please refer to operating instruction 18.4.2.

Destatementization request in electronic mode:

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

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

ii. If digitally signed electronic instruction is received, the procedure specified under Operating instructions 17.8 is followed.

iii. The BO is an individual sole holder.

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

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

vi. For further details, please refer to operating instruction 18.4.18.

(c) The DP before accepting demat request checks with the list of companies with the maximum pending demat request provided by CDSL

A list of Top 200 companies with the maximum pending demat requests is uploaded to the CDSL system and to CDSL's website every fortnight. DPs should ensure that this list is made available to DP-staff who receive demat requests from BOs, so that they may be in a position to appraise BOs of the Issuer (especially defaulting Issuers) and accept the shares for demat, only after re-confirming the same with the BO.

- IA needs to check for the sample selected, whether requests are correctly set up and processed.

  Any adverse observations emerging out of verification needs to be reported in the inspection report along with instances.

2.02 Whether DP sends securities for dematerialization to RTA/Issuer without defacing and mutilating certificates?? (If the certificates are not available for verification, the same can be checked by the auditor by checking rejected demat requests with the DP, if any.)

Verification Methodology:

To prevent the possibility of the share certificates being misused/ fraudulently used, the certificates are to be defaced and mutilated in the manner provided in operating instruction no 4.4.12.

The DP needs to mutilate the share certificates by punching two holes at the top of the certificate and then defacing it by affixing the stamp of "Surrendered for demat" along with 'DP name' and 'BOID'.

As certificates received during the inspection period had already been dispatched to issuer / RTA, this verification cannot be done for the DRF requests already been sent and can be done only on real time basis. The IA should check, whether the DP official, mutilates and defaces the share certificates on setting up of demat request on CDAS and generation of DRN.

The IA should also ensure that the DP official take sufficient care to ensure that the certificates are stamped in a manner by which important details does not get smudged.

In order to get an understanding of the procedure followed by DP for mutilation, IA should verify the rejected demat requests with the DP received along with the physical share certificates from issuer / RTA.

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

Physical share certificates are mutilated by punching two holes on the certificate and then defacing it by affixing the stamp of "Surrendered for demat" along with 'DP name' and 'BO ID'. This can be checked on real time basis for the DRFs processed by DP during the inspection.

In order to get an understanding of the procedure followed by DP for mutilation, IA should verify the rejected demat requests with the DP received along with the physical share certificates from issuer / RTA.

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

2.03 Whether the DP has an adequate system for keeping the physical securities under safe custody till dispatch to the Issuer/ RTA/AMC?

Verification Methodology:

It is very important that the DP keeps the share certificates received from the BO under a safe custody. During inspection period, IA should ensure that the DP has adequate provision for safe keeping of securities received for demat.

Following safety provisions can be considered vital for keeping physical securities safe until delivered to issuer / RTA

- Use of separate cabinets allotted for storing share certificates.
- Proper locking system
- Keeping keys in custody of senior official

During the inspection, IA should also observe that the access to such lockers is restricted to authorized personnel only. Any adverse observation emerging out of verification needs to be reported by IA.

2.04 Whether demat requests received from BOs are sent to the Issuer/ RTA/AMC within seven days from the date of receipt of demat request?

Verification Methodology:

As per CDSL Operating Instruction 4.4.15 & 18.4.9, DP must despatch the physical documents within seven days from the date of receiving physical documents from the BO to the RTA/AMC. The IA should check from the sample selected, the stamp of the date of receipt on DP's copy of DRF and the dispatch records maintained by the DP to ensure that the DP has sent the share certificates within seven days from the date of receipt of DRF from BO. Any

instances of delay need to be specifically brought in the report. The report should specifically state the number of days for which delay has taken place for each such demat request.

a. Where records are stored at Main DP:

Here the job of the Service centre is only to collect the DRF from BOs and send it to Main DP. IA should verify the process followed by DP i.e. whether date of receipt is mentioned by Service centre at the time of receipt from BO or at HO at the time of receipt from Service centre. If receipt stamp is affixed by Main DP and not by Service centre at the time of receipt from BO, this fact needs to be specifically mentioned in the inspection report as an adverse observation. In such a case, IA should also check whether DRF/MF DRF are sent to issuer /RTA at least within 7 days from the date of receipt by Main DP (receipt date mentioned by Main DP on DRF)

b. Where records are stored at Branches:

In these cases, all the records are maintained at respective branches and Main DP performs only the job of setting up the DRF requests in CDAS. In such case, the IA should request the DP to obtain a sample of DRF so accepted and processed at the branches. This is to ensure whether the process followed by the Branch DPs is in line with that prescribed by CDSL. The despatch date should be ascertained on the basis of despatch register maintained.

Any adverse observations emerging out of verification such as

- Non-dispatch of DRF/MF DRF
- Delay in sending DRF/MF DRF
- Non-maintenance of dispatch records
- Non-mention of receipt date on DRF/MF DRF

need to be brought out in the inspection report.

2.05 Whether there is a proper procedure for recording of dispatch details such as dispatch ref. no., dispatch date, name of the courier, etc.?

Verification Methodology:

As per CDSL Operating Instruction 4.4.15, the DP shall capture the dispatch details on the front-end system such as the dispatch reference number, dispatch date, name of courier etc. If the DP has maintained the data in its back office in soft form, the IA should verify such data.

As such details can be entered in CDAS only till such time that the Issuer accesses the demat

request, the DP may maintain a separate register (either in back office / manually). Where DP has maintained separate register to record the dispatch details, IA needs to verify whether dispatch register maintained by the DP is complete w.r.t.

- DRF no.,
- DRN,
- BOID,
- Dispatch ref. no.,
- Dispatch date,
- Name of the courier.

IA also needs to check whether dispatch register is maintained in such manner which would ensure trail of dispatch is maintained for all DRF which are set up in the CDAS and sent to the issuer /RTA. For this, IA should verify whether for the sample number DRF/DRN, whether dispatch register is properly updated. The job of IA would be simplified, if the dispatch register is maintained in soft form. Any adverse observations need to be reported by IA along with instances.

2.06 a. Whether any demat/destate requests were rejected due to errors attributable to the DP?

b. Whether there is a system in place to analyze the reasons for such demat/destate rejections, demat/destate delays and taking corrective actions?

Verification Methodology:

The IA should get the list of demat rejections by RTA generated from CDAS (by generating **DP57 Report**) and also check the reason of rejection in CDAS. IA needs to analyze demat rejections by RTA which has occurred due to an error/ mistake or carelessness on the part of the DP. The IA is expected to report the same to CDSL along with number of such cases of mistakes.

Some of the reasons which can be attributed as error on the part of the DP are illustrated below:

- Mismatch in details on DRF and Share Certificate

- Unavailability/Incorrectness of ISIN
- Mismatch in holder name
- Signature of all holders are not present
- Transposition form not attached
- DRF sent to incorrect RTA/Issuer
- DRN not signed and stamped by DP
- Transmission form not attached or notarized/original death certificate not attached.

Mismatch in details on statement of account (SoA) submitted by BO and electronic records of AMC/RTA, AMC/RTA should reject the same. In case of mismatch of quantity of units represented by the SoA and the electronic data, 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. In case of rejection, the DP shall forward the rejection letter sent by the AMC/RTA to the concerned BO within 7 days from receipt of the same.

The IA should approach the DP Official for knowing the corrective action taken and steps taken to avoid occurrence of such type of errors in future. IA's verification and comment on this also should form a part of inspection report. IA can draw reasonable conclusion about the implementation of measures as stated by DP official for prevention of errors by comparing the extent of repetition of rejections attributable to similar reasons over a period of time. For this, he can obtain month wise DRF rejections by issuer / RTA.

2.07 Whether the DP has returned the certificates along with rejections letters to the concerned BO within 7 days of receipt of the same from the RTA?

Verification Methodology:

It may happen that the Issuer/ RTA may reject the demat request due to some reasons like mismatch in name, certificates reported earlier as stolen, forged endorsement on shares, etc. In case of rejection, the RTA sends the certificates along with the rejection letter which the DP is required to forward to the BO.

As per Operating Instruction 4.4.19, the DP shall arrange to return the certificates along with the rejection letter sent by the Issuer/RTA to the concerned BO within 7 days from receipt of

rejected certificates.

The IA may select a sample of demat rejections by RTA on the basis of DP57 generated from CDAS. DP 57 should be generated for 'closed demats' and filter can be applied for rejected cases to select samples. The IA can check the inward records of such sample selected and the dispatch records for the same to compute the total number of days within which the DP has forwarded the certificate and/ or rejection letter to BO.

IA should check whether all the rejections received from issuer/RTA are properly recorded in rejection register and dispatched to the BO within 7 days from the date of receipt. The job of IA would be simplified if a consolidated register is maintained for receipt and dispatch of rejection requests. The DP must maintain a proper record of the demat rejections received and the dispatch details for the documents returned to the BO.

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

2.08 Whether transposition form is filled along with DRF in case the BO names in the certificate are not in the same order as per the BO account details in the system.

Verification Methodology:

IA shall refer to the Operating Instructions 4.6.

Transposition is "Change in order of names". For example, if the certificates are in the names of A & B, the same can be lodged for dematerialization under account held in the name of B & A, by filling up the DRF and the Transposition Request Form (TPRF) as per Annexure 4.2. This will enable the Issuer/RTA to transpose the securities in the order of the names in which the account is opened and then accept the dematerialization request.

In case of transposition-cum-dematerialisation, the BO should mention the details of the account in which they wish to dematerialise the securities.

The DP shall verify the following on the TPRF :

- Whether the TPRF is complete.

 Whether the TPRF contains only those names (in any order) that are the holders of the BO account.

 Whether all the holder(s) have signed the TPRF.

 The DP should maintain a copy of the TPRF along with a copy of the DRF

2.09 Whether Transmission-cum-demat requests are processed as per the prescribed procedure? (Refer Operating Instruction point 4.7)

Verification Methodology:

IA shall refer to the Operating Instructions 4.7.

The transmission-cum-demat requests are not flagged separately in CDAS. Hence, it will not be possible for IA to generate a list of such requests from the system. IA can check the same on the basis of general sample selected for rejections and by checking the rejections due to reason code 'Transmission form / death certificate not submitted.'

In such case the Inspection team should verify whether the following documents are obtained by DP:

a) Dematerialization Request Form (DRF) complete in all respect. (The IA may refer to Question no. 2.1 for verification procedure to be followed while checking the DRF)

b) Transmission Request Form as per Annexure 7.1 of Operating Instruction in case of death of sole holder and in case of death of one of the Joint holders as per Annexure 4.5 of Operating Instruction. (The IA may refer to Question no. 1.9 of Chapter E for verification procedure to be followed while checking Transmission Request Form)

c) Original or copy of the death certificate of the deceased holder(s) duly notarized or attested by Gazetted Officer.

d) The IA should also verify whether all such requests are complete w.r.t
   - Client ID
   - Name of the BO
   - Name of Security
   - ISIN

- Signature of all holders to the account

The IA should also check that the DP has setup a demat request and submitted all the documents to the Issuer/RTA with the system generated letter within prescribed time of seven days.

2.10. Whether In case of securities lost in transit, appropriate follow-up / actions taken by the DP

Procedure to be followed if Physical Securities are lost in Transit

IA shall refer to the Operating Instructions 4.5

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

• The DP shall provide the Issuer/RTA proof of dispatch and also confirm that the certificates are not returned undelivered at their end.

• If the certificates have not been returned undelivered and are not traceable at the Issuer/RTA's office, then it will be assumed that the certificates have been lost in transit. In such a case, the DP shall execute an Indemnity Bond in favor of the Issuer/RTA. Format of the Indemnity is given in Annexure – 4.3.

• If the Issuer/RTA has already rejected the original demat request, then a fresh demat request is to be set up by the DP and the Indemnity Bond duly executed shall be submitted to the Issuer/RTA, along with a new DRN. The Issuer/RTA shall accept the demat request and carry out dematerialization on the basis of the Indemnity Bond given by the DP.

• In cases where the Issuer/RTA has rejected the demat request (for such a reason where the rejection can be rectified by the BO/DP), and dispatched the same to the DP, and such certificates are lost in transit, then an Indemnity Bond is to be executed and submitted to the Issuer/RTA along with a new DRN. In such cases, the DP is required to obtain prior consent from the Issuer/RTA for execution of Indemnity.

• However, in cases where the Issuer/RTA has rejected the demat request (for such a reason where the rejection cannot be rectified by the BO/DP), the Issuer/RTA will retain the documents. Such rejections may be on account of Fake / Forged / Duplicates already issued /

Court Injunctions, etc. In such cases, the DP should obtain rejection letters from the Issuer/RTA & hand over the same to the BO in order to enable the BO to take up the matter with the Issuer/RTA concerned.

IA should also verify whether The DPs are checking the DNs of certificates of equity shares submitted for dematerialisation and ensure that appropriate ISIN is filled in Dematerialisation Request Form, as applicable, while processing request for dematerialization (communiqué 5241) Any adverse observation emerging out of verification needs to be reported by IA along with instances.

2.11 Whether DP has processed demat request on the basis of "Letter of confirmation"

Verification Methodology:

IA shall refer CDSL Communique CDSL/OPS/DP/P OLCY/2022/48 dated January 28, 2022 and SEBI circular no. SEBI/HO/MIRSD/MIRSD_RTAMB/P/CIR/2022/8 dated January 25, 2022

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Module III – Instruction Slip (off market, on market, inter depository and early pay in)

Preamble:

One of the primary functions of the Depository is to give effect to all transfers resulting from settlement of trades and other transfers between various beneficial owners by recording entries in the beneficial owners account electronically.

As per Regulation 44 of SEBI (Depositories and Participants) Regulations, 1996, every participant shall allow a beneficial owner to withdraw or transfer from his account in a manner as specified in the Rights and Obligations with the beneficial owner. Also, no beneficial owner account can be debited without obtaining instructions from the client.

Thus, DPs need to give effect to any such transfer of securities, either between the BOs or between the BO and the CH/CC only on a request received from the transferor - BO. Such transfer request is given by the BO by submitting the Delivery Instruction Slip (DIS) duly filled with all the details.

The following areas need to be covered by the IA at the time of inspecting the issuance acceptance and execution of instructions by the DP:

Part 1 - Sample Selection

As the processing of DIS is a continuous process, the sample so selected should correctly cover the inspection period as well consider all the types of instruction.

IA should select the sample for verification as mentioned in **Chapter 3.**

Part 2 - Methodology

The Clause wise methodology which would be helpful for IA in verification is stated below. The IA may also refer to Chapter 6 of the CDSL Operating Instruction which deals with this subject.

3.01 a. Whether there is a proper inventory control mechanism for instruction slip

booklets?

b. Whether physical inventory is tallied with the inventory records at prescribed intervals? (Refer Point 6.5.1.13 of Operating Instruction)

Re. (a) whether there is a proper inventory control mechanism for instruction slips booklets?

Verification Methodology:

The CDSL Operating Instruction 6.5.1.13 cites the precautions which the DP needs to take in case of issue of instruction slip booklets. Accordingly, the IA needs to ensure that the DP maintains a record for blank DIS booklets printed and DIS booklet issued. Such record can be maintained in electronic or physical form. IA needs to verify and give observations w.r.t. the following

a. Whether records are up to date
b. Whether custody of DIS stock and register is with the senior official of the DP.
c. Whether periodic reconciliation of the inventory register with physical stock is carried out by senior official who is not responsible for issuance and maintenance of DIS books
d. Whether the record maintained reveals the following details:
    - Opening stock
    - Date wise receipt of DIS Booklets
    - Date wise issue of DIS Booklets
    - Date wise closing balance
    - Date wise authentication by the official

Re. (b) whether physical inventory is tallied with the inventory records at prescribed intervals?

In order to satisfy himself, the IA can cross verify the number of physical stocks of blank DIS booklets lying with the DP with balance as per the register at the time of inspection.

It is also necessary for the IA to review the reconciliation process and to verify whether:

- Formal record of reconciliation is maintained and which is signed by the concerned officials;
- Since no frequency of the reconciliation is suggested by CDSL, the IA may determine reasonableness of the frequency of reconciliation on the basis of volume and frequency of withdrawals and inwards. Generally, monthly reconciliation should be considered as reasonable. Any adverse observation in this regard needs to be reported by the IA.

3.02 Whether the DIS issued to BOs have pre-stamped BO ID and preprinted serial number?

Verification Methodology:

According to CDSL Operating instruction 6.5.1.3& 6.5.1.5, DP needs to ensure that the BO ID is pre-stamped and serial number is preprinted on the instruction slips. The Requisition slip should have pre-printed range of the instruction slip serial numbers of the booklet of which it forms a part thereof.

The IA can, for this purpose verify on sample basis, whether the blank DIS booklets with DP have serial numbers printed on the original as well as acknowledgement copy of each instruction slip.

IA should verify for the sample of DIS received by the DP whether DIS bear preprinted serial number and pre-stamped BO IDs.

IA may also check on real time basis whether, the DIS booklet being issued to the client have preprinted serial number and BO-ID of the respective clients is stamped on it before issuance (Operating instruction 6.5.1.5).

Any adverse observation emerging out of verification should be reported by IA along with instances of non-compliance.

3.03 a. Whether the first instruction slip booklet is being issued as per the procedure prescribed for the same? (Refer O.I. 6.5.1.8)

b. In case of first instruction slip booklet is not issued, consent of the BO has been obtained for the same. (Refer Operating Instruction 2.4.21

c. Instruction slips have been issued to the BO for the account under BSDA

d. Whether there is a system to issue delivery instruction booklets to the BOs based ONLY on the requisition slip, which forms a part of the earlier issued instruction slip booklet?

e. Whether such requisition slip has preprinted instruction slip serial number range

of the booklet of which it forms a part?

f. If any instruction slip booklet is not issued on the basis of requisition slip, whether the procedure prescribed under operating instruction no. 6.5.1.12 **is followed?**

g. DIS issued on the basis of requisition slip to person other than BO (to the bearer), signature of the bearer is attested by the BO on the requisition slip / authority letter and acknowledgement is obtained for the receipt of the DIS booklet.

Verification Methodology:

Re. (a, b & c) whether the first instruction slip booklet is being issued as per the procedure prescribed for the same? (Refer Communiqué **538 & O.I.6.5.1.8)**

As first booklet issued to the client at the time of account opening is not backed by any requisition, it is obligatory for DP to maintain up to date records of delivery of DIS booklet. According to communiqué 538 dated April 5, 2005 –

DIS booklets should be dispatched / handed over to the BO once the account opening process is completed. The DP should maintain record of dispatch / delivery. In case of hand-delivery, the same should be delivered only to the BO and the signature of the BO should be kept on record. In order to ensure that DIS booklets have been delivered to BO who have opened demat account, IA should generate DPS8/DPB9 report from CDAS which contain list of new BO accounts opened during the inspection period and compare it with DIS Issuance Register to ascertain whether DIS booklets are sent to all the BOs after account opening procedure is completed. The job of IA would be easy if DP has a system of putting a remark as “First DIS” whenever DIS is delivered after account opening process is completed.

Fresh issuance of DIS booklets should be done on the basis of duly signed requisition slip. DP shall verify whether the requisition slip forms a part of the booklet issued to the BO as well as verify the signature(s) of the BOs. In case the fresh DIS booklet is hand delivered to the BO, record of the signature of the BO of having received the DIS booklet should be maintained.

DIS booklet may be hand-delivered to any person other than the BO, only on the basis of a requisition slip forming part of the earlier booklet issued and signed by the BO. The requisition

slip should contain the signature of the person authorised by the BO to receive the new DIS booklet.

DP should verify the signature of the BO(s) on the requisition slip before handing over the DIS booklet. DP shall record the name and signature of the person to whom the DIS booklet is hand-delivered.

There should be pre-printed unique serial number and is pre-printed or pre-stamped on the requisition slip.

In case DIS booklet issued by the DP does not contain the requisition slip or in case the BO has lost the requisition slip, a letter to that effect signed by all the holders shall be taken for issuance of fresh DIS booklets. In such case, one of the accountholder should personally come with such letter and with a valid proof of identity. DP should check the proof identity and keep the same on record and hand deliver the DIS booklet. In case the account holder cannot come in person, the DIS may be couriered / mailed to the correspondence address of the BO. The DP should maintain record of dispatch.

A BO may execute a power of attorney (POA) in favour of the CM for executing delivery instructions for settling stock exchange trades effected through CM or a BO may execute a power of attorney (POA) in favour of the PMS manager In such a case, the BO may be given an option to receive the Delivery Instruction Slip Booklet (DIS) on the DP completing the account opening procedure or at any later date on request by the BO. The BO can exercise such option by submitting an 'Option Form for issue of DIS booklet', as given in operating instructions Annexure 2.5, which shall be given to the intending-BO along with the Account Opening Form. A written consent shall be obtained from BO in case BO agrees to waive off the right to receive DIS at the time of account opening and opts to receive it at a later date.

Any adverse observation in this regard such as following needs to be reported along with instances and type of non-compliance:

- Delivery of DIS booklet to other than account holder
- Signature of the account holder not obtained on delivery of the DIS booklet
- Non maintenance/ incomplete dispatch records
- DIS booklet issued with inordinate delay

- DIS booklet not issued

Re.: (d) and (e) Issuance of DIS Booklet on the basis of DIS Requisition Slip:

SEBI Circular SEBI/MRD/Dp/Cir-03/2007 dated February 13, 2007 and CDSL Operating Instruction 6.5.1.9 specifically states that, fresh DIS booklets should be issued only against duly signed requisition slip. At first instance, IA should check whether DIS requisition slip forms a part of DIS booklet.

IA should check for the sample selected from the "Register of DIS Booklet Issuance", whether issue of those DIS booklets are backed by DIS requisition Slip of the same BO.

Following are the points which IA should take into consideration while verifying the DIS requisition slips:

- The DIS Requisition Slip is duly filled w.r.t BO ID, name of BO, date of issuance, signature of BO or bearer.
- The DIS requisition slip is signed by all the holder(s) to the account. This can be verified by cross verifying the DIS Requisition slip with the Client Master set up in the BOS / CDAS.
- The DIS Requisition Slip should contain the pre-stamped BO ID. The requisition slip should also contain the pre-printed serial number range of the DIS booklet in which the particular requisition slip was contained (Refer Operating instruction 6.5.1.7).
- It is also necessary on the part of IA to check, for the sample selected for verification, whether the DIS requisition slip on the basis of which the DIS booklet is issued is out of the previous DIS booklet issued to the same client. For this, details of previous DIS booklets issued can be obtained from BOS or DIS issue register and checked with serial number details of the requisition slip. This would enable IA to confirm that the stamping of BO ID is done correctly by DP officials.
- It is also necessary on the part of IA to check whether signature of BO appearing on the DIS requisition slip matches with the signature in BO master and DIS issuance register. If BO authorizes any other person to collect DIS booklet on his behalf (i.e. bearer of DIS requisition), then the requisition slip should contain the signature of bearer. IA should also check the signature of bearer appearing in DIS requisition with the signature on DIS issue register.

Re.: (f & g) Issuance of DIS Booklet on the basis of requisition letter:
(Operating instruction 6.5.1.12)

As per the Operating Instruction, whenever need arises to issue a DIS booklet where the requisition slip is not available with the BO, special care needs to be exercised by the DP. In such an event, BO needs to make a written request for issuance of the DIS booklet along with stating the reason why requisition slip is not available with the BO. (The reason could be requisition slip not being a part of the DIS booklet earlier issued, requisition slip lost etc.)

The IA needs to check whether the DP has set up procedure of issuing DIS only after confirming the identity of the BO. CDSL in its Operating Instruction has stated that in such case, one of the BOs should personally come with such letter and with a valid proof of identity. DP should check the proof of identity and keep the same on record and hand over the instruction slip booklet.

Whether such process is followed by the DP can be verified by the IA by checking such requisition letter duly signed by joint holder(s). The IA should also verify document of proof of identity submitted by the BO along with the written request and ensure that the same is verified with original by the DP official. Please refer proof of identity recommended by CDSL in Chapter 2 of its Operating Instruction.

In order to check whether such issuance are made only to BO in person, IA needs to compare the signature of BO in DIS issue register with the signature scanned in the BOS / CDAS. Any adverse observation in this regard along with instances needs to be reported by the IA.

3.04 a Whether loose delivery instruction slips are issued as per the prescribed procedure? (Refer operating instruction 6.5.2)

b. Whether DP has issued more than 10 loose DIS to any account holder in a financial year (April to March)? (Refer Communiqué **846)**

Verification Methodology:
(a&b) During inspection, IA can come across instances where DP has issued loose DIS slip to

BO. The precautions which DP needs to take for issue of loose DIS slips to BO are narrated in Operating instruction 6.5.2. The DP should issue loose DIS to client if he comes in person only after verification of his signature and proof of identity and only for the instructions, which BO intends to execute on the same day.

The IA has to confirm from the DP whether it issues loose delivery instruction slip to the BOs and can ascertain the same by following methods:

a. Review of DIS issue register
b. Review of Loose DIS issue register (if maintained by DP).
c. Periodic reconciliations prepared by DP during inspection period.
d. Physical verification of DIS stock by IA.

In case if the DP is following a practice of issuing loose DIS, then the IA should ensure that the DP has maintained a separate **'Register of Loose DIS issued'** for recording details of BOs to whom loose DIS is issued. Following aspects which IA needs to check where DP issues loose Delivery Instruction Slip.

i. Whether DP has properly maintained **'Register of Loose DIS issued'** which contains the Serial number of Loose DIS, BO ID and Signature of the BO to whom the DIS is issued, the date of issuance and reason for not executing the DIS on same day.
ii. The IA should cross verify the signature on the issuance register, with that in the client master maintained by the DP.
iii. IA should check the date of DIS with the date of entry in CDAS to ensure that it is executed on the same day. If it is not entered on same day, IA should check the captioned register is updated with the reason for not executing such DIS on same day.
iv. Whether Signature of BO and Proof of identity is verified by DP official i.e. "signature verified" stamp and signature of DP official is present on 'Register of Loose DIS issued'.
v. Whether more than one loose DIS was issued at a time.
vi. Whether more than ten loose DIS are issued to one account holder in a financial year. (as required by SEBI circular SEBI/MRD/Dep/Cir-03/2007 dated February 13, 2007)

Any adverse observation in this regard needs to be reported by the IA with the exact nature of non-compliance and list of instances.

(b) Whether DP has issued more than 10 loose DIS to any account holder in a financial year (April to March)? (Refer Communiqué 846)

Verification Methodology:

During inspection, IA should check, whether loose DIS has been issued to any of the BO, as per procedure prescribed in operating instructions 6.5.2, from the DIS issuance register, (which may be maintained in soft copy or hard copy). As per SEBI guidelines, the DP shall not issue more than 10 loose DIS to any account holder in a financial year i.e. April to March. The loose DIS can be issued only if the BO(s) come in person and signs the loose DIS in the presence of an authorized DP official. The IA should follow the methodology steps as mentioned above. (Refer communiqué 846)

Any adverse observation in this regard needs to be reported by the IA with the exact nature of non-compliance and list of instances.

3.05 a) Whether there is control over issue of instruction slips to the BOs e.g. proper records of instruction slip serial numbers vis-à-vis account number?

Verification Methodology:

Since the Delivery Instruction Slip forms the basis of operation of the demat account, the DP needs to take utmost care while issuing such Delivery Instruction Slip (DIS). The DIS should be issued only after confirming the genuineness of the BO. Apart from this, the DP needs to maintain a complete record of issuance of DIS booklets.

Verification of Records to be maintained by the DP:

CDSL Operating Instruction 6.5.1.6 requires DP to maintain register to record the serial number of the instructions slips issued to the BO.

IA needs to check whether DP has maintained the record / register for issue of DIS and such records are complete w.r.t. various details as required by CDSL. The inclusion of following details w.r.t. issue of DIS booklets would make the records maintained by DP complete.

- Date of Issue of DIS booklet
- Serial number of DIS booklet
- Range of the DIS issued
- BO ID of the Client
- Name of BO
- Mode of delivery
- Signature of BO / receiver (in case of hand delivery)
- Signature of concerned officer issuing DIS booklets

Any observations emerging out of verification of aforesaid records should be mentioned in the inspection report along with the instances

3.06 Whether there is a system in place to affix the date and time of receipt stamp on DP's and BO's copy of DIS?

Verification Methodology:

In view of the time criticality of execution of clients' instructions, date and time stamping on the Delivery Instruction Slip submitted by the BO turn out to be of apex importance. The time and date of receipt of the DIS should be put on both the portions of the form i.e. DP's copy and BO's copy.

IA primarily needs to verify on real time basis, the procedure followed by the DP on receipt of DIS for execution during the inspection. IA needs to verify,

- Whether responsibility of receiving DIS and affixing date and time stamp is assigned to specific person/s
- Whether date and time of receipt is properly mentioned on DIS i.e. on DP's copy as well as BO's copy of DIS.
- Whether DIS are accepted by DP official only when it is complete w.r.t. details such as ISIN of shares, scrip name, settlement no. (if it is on market), execution date, target BO ID, signatures of BO/POA.
- Where DIS are received beyond or very close to prescribed deadline, whether appropriate stamp stating "accepted for execution on best effort basis" or "accepted at BO risk only" is affixed.

In addition to this, the IA should, for the sample selected for verification, check whether DP official affix the date and time of receipt stamp on DP's copy of DIS.

Any observations emerging out of verification of aforesaid records should be mentioned in the inspection report along with the instances.

3.07 Whether there is a system in place to suitably stamp the delivery instructions received beyond the prescribed deadlines?

Verification Methodology:

As per Operating Instruction 6.5.4.3, the DP should accept the instruction slips for pay-in of securities from the BO in physical form up to 4 p.m. on T+1 day and in electronic form up to 6 p.m. on T+1 day. In case of receipt of instruction beyond or very close to the deadline prescribed by DP, it should be accepted by affixing a stamp "accepted for execution on best effort basis".

On real time basis, IA should verify whether DP official accepting DIS are aware of these timelines and affixing the captioned stamp on both copies (on DP's as well as BO's copy) of DIS when it is received beyond or very close to prescribed deadline. This information can be gathered through the discussion with the concerned officials and checking whether such stamp is available with the DP.

For the sample selected for verification, the IA should verify whether aforesaid stamp is affixed on DIS on the basis of time of receipt of DIS mentioned on DIS. If the IA comes across any DIS which is received beyond the stated deadline but is not stamped "accepted for execution on best effort basis" or vice versa, the same should be reported.

Any observations emerging out of verification of aforesaid records should be mentioned in the inspection report along with the instances.

3.08 Whether the instruction slip number is verified against the issue details before execution of instruction through back office?

Verification Methodology:

A client can affect transfer of securities from his account only by giving a debit instruction through DIS issued to him. Since execution of instructions result in transferring the beneficial ownership of securities, it is of utmost importance that DP has an infallible procedure and sound internal control deployed at the time of receipt of DIS from BO, to ensure genuineness of the instruction and identity of person giving instruction.

a. Back Office Software:

At first instance, IA should verify whether DP has system of updating details of DIS issued in BOS against BO IDs on the basis of DIS issue register i.e. mapping of DIS booklets issued with the BO IDs. On real time basis, IA should verify when BOS was last updated with the DIS issued details to ascertain the update. The IA should also verify whether BOS has an inbuilt system of mapping DIS booklets with the BO IDs and prevent execution of instruction, if the DIS serial number entered for execution under a particular BO ID does not match with series issued to that BO. This should be verified by the IA through entering a dummy entry of a DIS numbers against the BO ID of another Client. The IA should also check and comment upon whether there is a facility in the BOS for overriding of such control points.

For the sample selected, the IA can cross verify the DIS executed with the DIS Issuance Register to ascertain that the DP follows the above-mentioned procedure. Apart from this, the IA can also observe, on real time basis, the procedure followed by the DP. IA needs to state the procedure followed by DP in such cases.

Since back office installation is made mandatory as per communiqué 1577 dated 13.05.2009 and communiqué 1904 dated 25.02.2010, the instruction slip number is verified against the issue details before execution of instruction through back office only should be ensured by DPs. Any observations emerging out of verification of aforesaid records should be mentioned stating the weakness of the system if any.

3.09 Whether provision for blocking the DIS serial numbers which are:-

a. Already used OR

b. Reported lost/ misplaced/ stolen exists?

c. Blocked DIS in back office?

Verification Methodology:

SEBI vide circular SEBI/MRD/Dep/Cir-03/2007 dated February 13, 2007 stated that in case of loss / theft of DIS Booklet or if the DIS book is misplaced, the BO must intimate the same to the DP in writing and the DP on receipt of such intimation shall cancel the unused DIS of the said booklet.

Accordingly, the said unused DIS should be blocked in the BOS so as to avoid any fraudulent usage of such DIS. DP should have the aforesaid provision irrespective of its using a Back Office Software or not. The IA should verify existence of controls in these respects in both the cases. The same has been explained below:

a. Back Office Software:

To prevent multiple execution of the same DIS, it is necessary that the BOS has a provision of blocking DIS that has been already executed. Apart from this, BOS should not allow execution of DIS which is reported by BO and entered in BOS as lost/misplaced/ stolen.

The IA can verify the existence of this system by checking whether the system accepts the DIS already executed.

The IA should obtain details of DIS lost or misplaced from DP and check on random basis whether these DIS numbers are blocked in the BOS. For this purpose, IA should punch a dummy entry for the DIS numbers reported as lost or misplaced to verify whether the system accepts the same.

b. Reported lost/ misplaced/ stolen exists:

The IA should verify whether the DIS received for execution is checked by two officials for the details contained in it and is cross verified by them in the back office software with :

- Particulars entered in “DIS Issuance Register” to ensure that the serial number on

DIS is from the series which was issued to the BO.

- Records maintained by DP for DIS already executed.
- Records maintained by DP for reported by DP as lost, stolen and misplaced.

In order to fix responsibility and maintain trail, the verifying officials need to put their initials on the DIS. DP needs to block the reported lost/misplaced/stolen DIS in the back office. IA should punch the reported lost/misplaced/stolen DIS and verify whether Back office allows execution of said DIS and any pop up message is displayed so that DP can made alert not to execute such DIS which is already blocked.

Any observations emerging out of verification of aforesaid records should be mentioned stating the weakness of the system if any.

3.10 (a) Whether DP executes instructions only on the basis of duly signed instruction slip or digitally signed electronic instructions, as prescribed under guidelines of CDSL / SEBI?

(b) Whether signatures on instruction slips are duly verified / matched before execution of instruction?

(c) Whether instruction of the BO is not executed or erroneously entered by DP?

(d) All debit transactions pertaining to the government securities have been executed only after receipt of authorization from BO

(e) For any transaction executed, if there is no DIS on the record of the DP the same is entered/uploaded based on court or statutory order or CDSL instruction towards reversal of the erroneous transfer using the codes as STOR999999999999 and RVET999999999999 respectively.

Verification Methodology:

SEBI vide circular SEBI/MRD/Dep/Cir-03/2007 dated February 13, 2007 has stated the DPs to put in place appropriate checks and balances with regard to verification of signatures of the BOs while processing the DIS.

Accordingly, IA needs to ensure whether the DP has set up a procedure to check the signatures of BO on DIS with the signatures scanned in BOS/CDAS. IA should on real time basis review the procedure for execution of DIS to ensure whether the DP executes instructions only after due verification. In order to fix responsibility and maintain trail, the verifying officials need to put their signatures on the DIS which is evident of the fact that details including signature are verified and found correct. Alternatively, the audit trail of maker and checker of an instruction slip can also be maintained in BOS, which should be checked by the IA.

The IA should also verify for the sample selected whether the DIS is duly signed by all the joint holder(s). For this purpose, IA should compare the signatures appearing on DIS with the signatures in BO master and also verify whether DIS is verified by two officials. In case of HUF clients the IA should verify whether the Karta has signed under the stamp of HUF and incase of company whether the DIS is signed by authorised officials under the seal of the company.

DP should follow the Procedure for execution of transactions based on receipt of digitally-signed electronic instructions as prescribed in the Operating Instructions 17.8

Any observations emerging out of verification of aforesaid records should be mentioned stating the instances and the weakness of the system, if any.

(c) Whether instruction of the BO is not executed or erroneously entered by DP?

Verification Methodology:

DP has to execute the instruction into the system once it is accepted and duly acknowledged to BO and taken on record. Then DIS has to be executed in the respective BO's account. DP should ensure that no DIS is left out to be executed or erroneously executed in the different account i.e. in the demat account of the BO other than the BO who has given instructions.

DP will have to ensure that the total instructions received are equal to the instructions executed plus instructions pending and accordingly reconciliation process is followed to ensure that no DIS is left out to be executed.

IA should check the transactions by taking sample of transactions generated from CDAS for a

certain period with physical DIS of that period and ascertain that any instruction is not punched into the system. For erroneous transfers, IA should check the DIS punched into the system on sample basis with the physical DIS and ascertain whether any erroneous entries have been made.

Any observations emerging out of verification of aforesaid records should be mentioned stating the instances and the weakness of the system, if any.

(d) All debit transactions pertaining to the government securities have been executed only after receipt of authorization from BO

Verification Methodology:
IA should verify that the All debit transactions pertaining to the government securities have been executed only after receipt of authorization from BO

(e) For any transaction executed, if there is no DIS on the record of the DP the same is entered/uploaded based on court or statutory order or CDSL instruction towards reversal of the erroneous transfer using the codes as STOR999999999999 and RVET999999999999 respectively.

Verification Methodology:
IA shall refer to the Communique 4664 dated 27.08.2017.

If any instruction is entered/uploaded based on court or statutory order where no delivery instruction slip is available, the DP should enter the DIS no. as 'STOR999999999999' and execute the instruction.

If any instruction is entered/uploaded based on CDSL's instruction towards reversal of the erroneous transfer where no delivery instruction slip is available, the DP should enter the DIS no. as RVET999999999999' and execute the instruction.

3.11 Whether instruction slips are checked and are verified by two officials (maker checker) separately for the correctness and signatures?

Verification Methodology:

The IA needs to verify whether the DP has procedure where every DIS received from BO is verified by two persons (maker- checker) before execution. (Operating instruction no. 6.5.4.1) The instruction slip should be checked by two officials separately for their correctness i.e. for the details mentioned and signatures on the DIS and the officials must record their initials on the DIS. This can be verified on real time basis apart from the verification of sample selected for verification.

Where a DP has Back Office Software, the IA can verify the trail in the Back Office Software to ensure person entering and person authorizing the transaction are different. In case of manual controls, the IA should verify whether persons checking and authorizing the details and signature of BO, have put their signatures on DIS. For the sample selected, IA should also verify details appearing on DIS with the details in BO master and whether signatures appearing on DIS are prima facie in account opening forms with signatures in BO master.

Signatures of person verifying DIS on instruction implies following:

- DIS is complete w.r.t. details such as date of DIS, First holders name, ISIN of security, Name of the script, Quantity, Execution date, Settlement Number (in case of on market instruction), Target Client ID (in case of Off market instruction), signature of all the joint holders/ POA if any etc.
    - Signature of BO appearing on DIS is in account opening forms with the signature in the records of DP.
    - Details of BO mentioned on DIS such as name of BO, DP ID, matches with the details in BO master.
    - The instruction received from BO is out of the series of DIS booklet allotted to the BO.

If during verification on sample basis, IA comes across any adverse observation in any of the aforesaid areas; it implies weak checker and authorizer mechanism at DP and needs to be reported along with the illustrative instances.

3.12 Whether corrections /cancellations on the instruction slip, if any, are authenticated by all the joint holders?

Verification Methodology:

In case of corrections /cancellations on the instruction slip, are not authenticated by all the joint holders and yet the transaction/s has/have been executed by the DP the same should be pointed out by the IA.

3.13 Whether fax indemnity in prescribed format is obtained from the BOs before accepting instructions through fax?

Verification Methodology:

Every delivery instruction received through fax must be supported by fax indemnity obtained from the BO. The Fax indemnity so obtained should be in the format as prescribed in Annexure 6.7 of the Operating Instruction 6.5.6.1 of CDSL and communiqué 209 dated 16th October 2002. The format provided by CDSL is indicative in nature and DP may modify the format of the Fax indemnity, but it should contain all the clauses as mentioned in Annexure 6.7.
The IA should check whether any of the clauses in the format used by the DP is in contradiction to that specified by CDSL. The fax indemnity should have been executed on a stamp paper of appropriate value (Stamp paper of Rs. 200/- in the state of Maharashtra) and should be signed by all the joint holder(s).

IA also needs to check the system followed by DP for ensuring that for every DIS received through fax from the BO, DP has obtained fax indemnity from BO and kept on record. e.g. It is suggested that DP can give unique indemnity reference number to every BO who wanted to send DIS through fax and this number is entered in BOS in the BO master. Every time when BO is sending DIS through fax, he has to state this reference number on DIS so that when it is entered in the BOS, system would ensure that indemnity is received from BO.

Besides this, from the record of the DIS copies filed which is received through fax, IA should select the fax instructions from the sample of DIS so selected and verify whether the same are backed by Fax Indemnity received from BO.

Any adverse observation emerging out of verification mentioned above should be reported along with instances and weakness in the system, if any.

3.14 Whether it is ensured that original instructions are received within three days in case fax instructions are accepted? (Communiqué 1598 dated 27.05.2009)

Verification Methodology:

CDSL vide Operating Instruction 6.5.6.12 has stated that original Instruction Slip should be collected by the DP within three working days from the date of receipt of fax instruction. The IA should check whether the DP follows the procedure accordingly.

CDSL has also vide Operating Instruction 6.5.6.8 and 6.5.6.16 made it mandatory for the DP to preserve the Fax copy of the instruction and file the same along with the original instruction.

The IA should check for the sample selected from the filled instructions (fax and original), the date and time appearing on the fax instruction and the original instruction to confirm whether original DIS is received from BO within two days from the date of receipt of fax instruction. It may be noted that for this purpose, CDSL has vide operating Instruction 6.5.6.15 made it compulsory for the DP to affix date and time stamp on the original as well as fax instruction.

IA may come across following types of observations during verification:

- Non-receipt of Fax indemnity from BO.
- Non-receipt of original instruction from BO.
- Inordinate delay in sending original instruction.
- Separate filing of fax and original instructions
- Date and time of receipt is not mentioned on original instruction.

Where IA comes across instances of delay or non- receipt of original instructions from BO then it needs to verify the action taken by DP against such BO. According to CDSL Operating Instruction 6.5.6, failure to submit the original instruction slip within the stipulated time would result in suspension of the facility immediately and no fax instructions would be processed after such suspension received from such BO.

Any adverse observation emerging out of verification should be mentioned in the inspection report along with the instances.

Verification Methodology:

To enable the DP Official to identify original copy and Fax copy of the DIS received and to prevent multiple execution of same instruction CDSL has laid down a procedure in Operating Instruction 6.5.6.

Accordingly, the DP is required to advise their BO to mention the words 'FAX INSTRUCTION' on the top of the instruction faxed. Apart from this, the Original DIS should also bear the words "This is a hardcopy of the fax transmission to you, transmitted on _____day of _____month of ____year".

The IA should check for the sample selected whether the aforesaid procedure has been stringently followed by the DP.

Also, it may be pertinent to note that the presence of blocking provision in the BOS or manual system at DP as explained in **Question 3.9** above can also confirm that the DP has the required system in place to prevent multiple execution of fax instruction. Where BOS is not in operations, IA should verify and comment upon the manual controls exercised by DP to prevent multiple execution of the same instruction.

Any observations emerging out of verification would be mentioned in the inspection report along with the instances and system weakness, if any.

3.15 Whether delivery instructions accompanied by annexures are accepted and processed as per procedure prescribed by CDSL?

Verification Methodology:

BO may attach annexure to a DIS in the following instances:

- If BO gives delivery instructions for credit of securities to multiple BO accounts, OR
- If BO gives receipt instructions for receiving securities from multiple BO accounts, OR
- If the space provided in the instruction slip is insufficient.

The various precautions which DP needs to take before accepting annexures along with the DIS are prescribed in CDSL Operating Instruction 6.5.3.

IA can come across following types of observation during the course of verification of DIS and annexures:

- The Instruction Slip Serial Number are not mentioned on each page of the annexures attached to the instruction slip.

- Each page of the Annexure does not contain the signatures of all the joint holder(s)/ Authorized Signatories/ POA, if any.
- Any alteration, correction, cancellation on the Annexure is not authorized by all the holder(s)/ authorized signatories/ POA, if any.
- The total number of pages annexed to the instruction slip and the total number of instructions contained therein are not mentioned on the Instruction slip.
- Mismatch in the details mentioned in DIS for number of pages annexed and number of pages attached as annexure e.g. the DIS may state that the total number of pages annexed are three whereas the actual number of pages annexed may be two.
- The annexures attached does not contain details like BO ID, date of execution, ISIN, quantity, etc.
- Mismatch in the total number of instructions mentioned in DIS and total number of instructions as per Annexure attached.

It may be pertinent to note the SEBI Circular which states that - in case of active accounts, such verification may be made if the BO account has 5 or more ISINs and all such ISIN balances are transferred at a time.

Any observations of aforesaid type need to be mentioned in the inspection report along with instances.

3.16 Whether digitally signed electronic instructions are processed & executed as per operating instruction 17.8?

Verification Methodology:

The DP should have adequate system and security features in place to authenticate the clients and the person giving the instructions in cases where the said instructions are received from the authorized representative. DP should be able to prove the origin destination, date and time of receipt or dispatch of the electronic instruction received by it and this information should be available for verification. As per IT act 2000 all transaction carried out electronically which have been authenticated by means of a digital signature only are legally recognized. Further the system /process that DP establishes should permit the client /authorized representative to ensure that the digitally signed instructions are received by an authorized individual officials ID of the DP. The DP should retain all electronic instructions in the format in which it was

originally received or sent or in a format which can be demonstrated to represent accurately the information which was originally received or sent. Electronic instruction s received by the DP should be authenticated by means of a signature verification of utility (SVU).SVU should be issued by the CA (Certifying authority) licensed by the CA. The Controller of CA to validate the digitally sign files received from the clients the new file generated after authentication should be stored as was received.

The DP back office shall compulsorily have a system to differentiate transactions digitally signed from those received physically or through easiest. DP should carry out proper KYC of applicant as specified by the agency issuing the digital signature. The KYC documents submitted by the applicant should be verified with the information present in CDAS System .For more details IA should refer Operating instruction 17.9 thoroughly.
Any observations of aforesaid type need to be mentioned in the inspection report.

3.17 Whether the blank columns have been struck off?

Verification Methodology:
With intention to safeguard the interest of the investor while transferring the securities, SEBI vide circular SEBI/MRD/Dep/Cir-03/2007 dated February 13, 2007 prescribed that DP should not accept pre-signed DIS with blank columns from the BOs.

To avoid any misuse of blank columns of DIS, CDSL also has prescribed that the blank columns should be struck off before accepting DIS from BO. Accordingly, the IA should check from the sample of DIS selected, whether the blank columns have been struck off.

3.18 Whether there is a system to ensure that while entering the transactions of value exceeding Rs. 5 Lakhs, a senior official verifies the transaction?

Verification Methodology:

According to CDSL Operating Instruction 6.5.4.5, instruction slip of transaction value more than 5 lacs should be verified by senior official of the DP. Moreover, such DIS should be checked and countersigned by another employee of the DP.(that is two step verification) (Refer Communiqué 2487 dtd.07.06.2011)

DP should track through back office system, value of securities of a particular instruction when

the same is entered in BOS. IA needs to verify by entering sample instructions of above and below Rs. 5 lacs, whether the back office has a mechanism to trigger alert for transactions valuing above 5 lacs and such transactions are accepted in BOS only when authorized by senior officials of DP. For this, IA should obtain list of senior officials of DP who are vested with the authorization rights of high value transactions. The existence of such control would ensure that transactions valuing above 5 lacs are not omitted for double authorization due to over sight. Once the IA is satisfied of the existence of an inbuilt alert in the system he needs to verify whether the DP actually implements the process of double authorization. For this, the IA can obtain high value transaction report - DPG1 Report, generated from CDAS which contain high value transactions executed for the period. For these transactions, IA should, on sample basis, verify whether these DIS were authorized by a senior official before execution.

In order to check the manual controls, IA should obtain high value transaction report - DPG1 Report, generated from CDAS which contain high value transactions executed for the period. For these transactions, IA should, on sample basis, verify whether these DIS were authorized by a senior official before execution.

Any adverse observation in this regard needs to be reported by the IA. Where DP does not have BOS, IA should also state, along with the observations, the procedure followed by DP in this regard.

3.19 Whether the daily report with respect to High value transactions (including null report) being generated by CDAS is stored by the Main and branch DPs (communiqué no. 612 dated 30.11.05)?

Verification Methodology:

DPG1 Report provides high value transactions i.e. (**presently Rupees Five Lakhs).** CDSL also has made it mandatory in the above-mentioned communiqué for every DP to generate and store the Report for future reference.

If the DP stores the report on its local drive then the IA should check whether the report was stored date wise for the inspection period. It is also possible that DP takes a back up on daily basis and the previous reports are purged from the local drive. In both cases IA should ask the DP to produce **DPG1 Report** for sample number of dates out of entire inspection period.

IA also needs to comment upon whether such report was readily made available for verification by DP.

Any adverse observation in this regard needs to be reported by the IA.

3.20 (a)Whether DP has a provision in back office system to conduct two step verification for transactions originating from dormant accounts.

DP has a provision in back office system to conduct two step verification for transactions originating from dormant accounts?

(b) DP verifies transactions originating from dormant accounts independently with the account holders before execution and records the details of the process on instruction slip (Refer O.I. – 6.5.4.9)

Verification Methodology:

As per CDSL Operating Instruction 6.5.4.8, for instructions received from dormant accounts i.e. accounts not operated for a minimum period of six months, the DP needs to exercise extra care while executing such instructions. The authorized official of the DP verifying such transactions with the account holders shall record the details of the process, date, time etc. of the verification on the instruction slip under his/her signature. Moreover, such DIS should be checked and countersigned by another employee of the DP. (that is two step verification) (Refer Communiqué 2487 dtd.7.06.11)

Also, SEBI vide circular SEBI/MRD/Dep/Cir-03/2007 dated February 13, 2007 has made it mandatory for the DP's to verify with the BO before acting upon the DIS, in case of dormant account, whenever all the ISIN balances in that account are transferred at a time.

Accordingly, the IA needs to ascertain the various system control measures designed in BOS by the DP so as to ensure control over the identification and processing of dormant account transactions. e.g. Pop up given by the system to alert the user at the time of entering transaction of dormant account and system would not allow execution of these transactions unless authorized by senior official.

To verify this, DP should get a list of dormant account as on date from BOS and test check whether such alerts are provided by the system.

In order to facilitate verification of such transaction executed during inspection period, CDSL has designed **DPF7 Report** which contains details like BO ID of the Dormant Account, DP ID of the BO, Transaction Date etc. The IA should get this **DPF7 Report** to know the number of dormant account transactions executed. The IA should verify the DIS received from the BO IDs appearing in such report to check whether a additional authorization is obtained on such

DIS which is evident of the fact that double checking has been done over and above the normal scrutiny.

IA needs to verify the following aspects to ensure control over processing of dormant account instructions:

- Verify whether confirmations from the holders were obtained before execution on CDAS (CDSL Operating Instruction 6.5.4.8). This can be verified if the DP maintains any records of the confirmations so taken from the Clients.
- Check whether responsibility of taking confirmation from the BO is assigned to person other than those already assigned with the exercise of maker checker or Senior Official of the DP.

IA should note that this report is available only at the Main DP. The Main DP gets the report for his DP ID as well as the Branch DP ID. Hence, the IA should check also check the report for the branch DP Ids, while conducting the inspection of Main DP and the action taken by the Main DP on such report.

Any adverse observation emerging out of verification needs to be reported in inspection report.

3.21 Whether the off market and inter depository instructions are executed in CDAS as per the execution date written by the BO (execution date is not required to be filled in case of on market and early pay-in instruction)?

Verification Methodology:

The IA should verify for the sample selected, the copy of DIS maintained by DP to check whether the DIS is duly filled w.r.t. date of DIS, BO ID, First holders name, ISIN of security, Name of the script, Quantity, Execution date, Instruction Id generated by CDAS, Settlement Number (in case of on market instruction), Target Client ID (in case of Off market instruction), etc. The IA should check from CDAS to ensure that the instructions are executed on the date as mentioned in the DIS.

Any adverse observation w.r.t. difference in execution date as per DIS and as per CDAS needs to be inquired into and reported by the IA.

3.22 Whether DIS contains information on "consideration" and "reason/purpose/payment details" where consideration amount is mentioned, in cases of transfers from one BO account to another not related to market trades (i.e. off market transactions)

Verification Methodology

As per communiqué 989 dated November 13,2007, DIS should contain information on "Consideration" and "Reason/Purpose" in cases of transfers from one BO account to another not related to market trades (i.e. off market transactions) in DIS. If the off-market transaction is for consideration, the amount would have to be mentioned. If there is no consideration involved, the reason should be furnished under options given therein. Mentioning reason code is mandatory for online entry as well as upload in CDAS and in easiest system for off market transaction (i.e. transaction between BO A/Cs with BO status other than 26 (clearing member) and 31 (Clearing House)) (Refer Communiqué 6085 dtd.17.08.2016)

IA should check the off market transactions slips and observe whether the information on consideration and Reason/Purpose has been obtained from BOs on DIS or a separate sheet.

1. If the BO has ticked 'Yes': BO should mention Consideration amount.
2. If consideration is 'Not Required', BO has to specify the reason thereof as given below.

(i) Gift (ii) Transfer between two accounts of same holder (iii) Transfer between family members (iv) Others: BO will have to explain the nature of reason/purpose which he/she wants to specify. (v) Many entities (including promoters) are transferring shares through the off-market option and stating these transfers as "pledge". To note that an off- market transfer of shares leads to the change in ownership and cannot be treated as pledge. (Communiqué 2094 dtd.23.08.2010).(vi) Implementation of Govt/Regulatory Direction/Orders vii) Erroneous Transfer pertaining to Client Securities viii) Meeting Legitimate dues of Stock Broker ix) For Open Offer/Buy Back x) For Margin Purpose

As per communiqué DP2018-465 dated September 04, 2018 if the reason for off-market transfer mentioned in the DIS is 'For Off-Market Sale/Purchase' where 'Consideration Amount' is mandatory, DPs would require to mandatorily obtain following payment details in the DIS from client and capture the same in CDAS:

a) Payment Mode
b) Bank Account Number
c) Bank Name
d) Branch Name
e) Transferee Name
f) Date of Issue/Transfer
g) Cheque/Reference Number

Information on payment details can be obtained in Annexure to DIS where Annexure should be duly signed by the client and should contain DIS number, Debit NOID, Credit BOID, ISIN, Quantity and Consideration amount along with above-mentioned payment details.

3.23 The DP does not accept pre-signed DIS with blank columns from the BO(s).

Verification Methodology

IA shall refer to the Operating Instructions 6.5.5.2.

DPs should not accept pre-signed DIS with blank columns from the BO(s).

3.24 The DP has entered/uploaded the issuance details of DIS booklet issued to BOs in CDAS on or after 1st October 2014.

Verification Methodology

IA shall refer to the Communique 4664 dated 08-01-20014

DPs should ensure that the issuance details of new DIS are captured in the CDSL System before entering transactions (online) received using such DIS issued on or after October 01, 2014 in the CDSL System.

DP has captured details of Undelivered DIS serial numbers in CDAS on receipt of the information. (Refer communique 5327)

Verification Methodology

IA shall refer to the Communique 5327 dated 20.07.2015

SEBI has directed that the details of returned undelivered status of DIS booklets should be made available in the depository system. Accordingly, DPs shouold capture the details of the undelivered DIS booklet issued to BOs in CDAS.

3.25.a The DP does scanning and uploading of all DIS entered/executed in the system within stipulated time period and checks DPU4 report to ensure that there is no DIS remaining pending for scanning and uploading.

Verification Methodology

IA shall refer to the Communique 4685 dated 04.09.2014 and 4729 dated 25.09.2014

All scanned DIS should be uploaded by the DP to CDAS system by the end of next working day of set up of transaction

For DIS entered in the CDSL system on Friday and Saturday the scanned image should be uploaded by Monday. Similarly, for DIS entered in the system, 1 day prior to trading holiday or on trading holiday, the scanned images should be uploaded on the day, after the trading holiday.

Following reports are available to the DPs for DIS scanned and uploaded in CDSL system.

i) EOD\ On line report of DIS scanned upload outstanding i.e. scanned image is not uploaded – i.e. DPU4

ii) Success / Failure report for DIS scanned image uploaded –i.e. DPU5

3.25b The DIS received through fax for execution is scanned and uploaded and thereafter the original DIS received is also scanned and uploaded in CDAS within ten working days.

Verification Methodology

IA shall refer to the Communique 4685 dated 04.09.2014 and 4729 dated 25.09.2014

In case of instructions executed on the basis of fax copy of DIS received from BOs, the fax copy should bear either on the front or back of the DIS (on the original DIS and not on the fax copy of DIS received from BOs) a stamp stating that “This is a hardcopy of DIS with serial no. ---------- of the fax transmission to you, transmitted on _____ day of _____

month of _____ year."

If the above stamp is affixed on back side of the DIS, then DP should scan both the sides of DIS. The Original DIS should be scanned by the end of the next working day of the date of receipt of DIS. If original DIS is lost in transit, the DP should take confirmation from the BO for having issued that DIS.

3.25c Scanned images of DIS are legible and tagged to the correct DIS serial number.

3.25d Scanned images of DIS are checked with original DIS.

Verification Methodology

IA shall refer to the Communique 4685 dated 04.09.2014.

The scanned images of DIS uploaded by the DP should be legible and tagged to the correct DIS serial number

Offsite inspection would be conducted on the basis of scanned image of DIS. However, during onsite inspection, if required/demanded by inspecting official, the original DIS should be made available for verification.

DP should ensure that the original DIS should be easily retrievable and made available for verification at any point of time as may be required by CDSL or any other Statutory /Regulatory body.

3.26 DP maintains standardization of DIS as per SEBI Circular CIR/MRD/DP/ 01/2014 dated January 07, 2014 and CDSL communique 4488 dated June 9, 2014.

Verification Methodology

IA shall refer to the Communique 4688 dated 09.06.2014.

Standardization of DIS:

i. A DIS must have a pre-printed unique serial number at the right hand corner at the top of the DIS with the maximum length of 16 characters. The CDSL system will provide for a DIS serial

number field comprising of 4 alpha characters (not mandatory) followed by 12 numeric characters.

ii. In case of a serial number with less than 12 numeric characters, the same may be left padded with zeroes to make it of 12 numeric characters and upload on CDSL system.

iii. Serial number should be unique within a DP ID.

iv. DIS must be printed on A4 or A5 or A8 size paper in such a manner that on scanning the image should be clearly visible.

v. Signature column should be at the bottom of the DIS.

3.27 In case active accounts having five or more ISINs and all such ISIN balances are transferred at a time, DP has verified with the client before execution of DIS and recorded the details of verification process, date, time, etc. on DIS under the signature of the official as per SEBI guidelines (Refer Communique 846).

Verification Methodology

IA shall refer to the Operating Instructions 6.5.4.9.

All the ISIN balances in that account (irrespective of the number of ISINs) are getting transferred then the DPs should mandatorily verify with the BO before acting upon the DIS. In case of active accounts such verification is mandatory if the BO account has 5 or more ISINs and all such ISIN balances are transferred at a time.

3.28 DP is following the guidelines issued through CDSL communique from time to time pertaining to using uniform/standardized reason codes while executing off-market transactions.

3.29 e-DIS facility provided by DP ensures capturing all details that are otherwise being captured in physical DIS

3.30 An instruction given by BO through e-DIS is towards actual transfer of securities to meet obligation for a single settlement number / date.

3.31 DP ensures that Pre-trade authorisation / Mandate is obtained from BO authorising DP to transfer specific securities for meeting on-market settlement obligation only.

3.32 The mandate provided by BO pertain to a single settlement number /settlement date.

3.33 Securities transferred on basis of mandate provided by client are credited only to client’s trading member pool account.

3.34 DP has provided the facility to its client to revoke / cancel the mandate provided by them.

3.35 DP ensures that the mandate provided by the client is in its favour and does not authorize any assignee of the DP.

3.36 The mandate adheres to the requirement of DP to return the securities to client that may have been transferred erroneously.

3.37 The mandate does not facilitate DP to transfer securities for off market trades and to execute trades in the name of client without client's consent.

3.38 The mandate does not facilitate the DP to open an email ID on behalf of client for receiving relevant communications.

3.39 The mandate does not prohibit to issue DIS to BO and also from operating the account

.

3.46 DIS accompanied by Annexure provided with requisite information is obtained from client intending to avail block mechanism facility with early pay-in facility as per the prescribed guidelines.

Verification Methodology for Online DIS processing by DP

IA shall refer to the communique 54 dated February 08, 2021.

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Module IV - Account Closure

Preamble:

A demat account closure can be initiated by the BO himself or by the DP or by CDSL. The DP may initiate closure in case of non-payment of dues by BO or violation of Rights and Obligations by BO. The procedure for closure initiated in either cases is laid by CDSL in Operating Instruction 10.5.

The review of account closure process followed by DP needs to be done, to ensure that the DP follows the procedure laid down by CDSL and the BO does not have to face undue hassles in account closure due to lethargy on the part of DP.

Part1 - Sample Selection

To begin with, an IA should get **DPS8/DPS9 Report** generated from CDAS for the inspection period. The IA should then apply filter on the status of the BO and then on the date of closure. This would enable IA to retrieve a complete list of the accounts closed for a given period. It would also specify whether the closure is initiated by the BO or by DP.

On the basis of list generated from CDAS, an IA should select a sample for account closures as suggested in **Chapter 3**.

Part 2 - Methodology

A clause wise methodology which would assist the IA in verification is given below. The IA should also refer to **Chapter 10** of the CDSL operating instruction for better understanding of account closure.

4.01 Whether BO submits Account Closure Form (ACF)/ a letter containing the particulars specified in ACF if the BO initiates closure?

Verification Methodology:

In case a BO wants to close his account, he has to fill an Account Closure Form (**ACF**). The form should be in the format specified by CDSL in Annexure 10.1 of the Operating Instruction. BO may alternatively submit a letter signed by all the holder(s) containing

all the details as per ACF to the DP.

The IA has to check for the sample of ACF selected, whether account closure requests initiated by BO are backed by ACF or letter and complete w.r.t. all details.

Following aspects need to be checked during verification of account closure request on sample basis:

- The Letter is signed by all the holder(s) to the account. Here it would be pertinent to note that even if the account is operated through POA, the request to close the account should be signed by all the holders to the account and not by the POA holder operating the account (Refer O.I. 10.5.3.18). IA needs to compare the signature of the account holders appearing on ACF with the signature maintained in BO master.

- The ACF or the letter should be complete w.r.t:
  - BO ID and Name of the holder(s) of the account
  - Address for Correspondence
  - Reason for closing the account
  - Whether to transfer or rematerialize the shares in the account fully or partly.

- Date of receipt is mentioned on the ACF/letter by the DP official.

- IA also needs to verify whether details of BO mentioned in the ACF match with the details of BO master.

- Pledged securities will not be transferred out of the account till such time the encumbrance is removed or obligation is met. In case of ISINs are frozen for debit /credit due to regulatory restraints like pending listing of the company with the Exchanges pursuant to an Initial Public Offer (IPO) or Scheme of arrangement etc. will not be transferred out of the account and account will be converted into “To be closed” status. However at a later date, when the ISINs which are ‘Frozen for debits and / or credits’ are activated in the BO’s account, the DP may process the transfer of the said securities to the account of the transmittee BO(s) based on a copy of the Account Closure Request / Transmission Request Form / DIS (for Inter – depository transfers) submitted earlier. (Refer Communiqué 2170 dated 11.11.2010)

Any adverse observation emerging out of verification should be mentioned in inspection report along with instances.

4.02 a. Whether DP has sent transaction Statement for the quarter in which the request for account closure has been received from the BOs with the words "Account Closed / Marked for Closure".
b. Whether proof of dispatch of such statement of accounts has been preserved by the DP. (Refer Communiqué 704)

Verification Methodology:
As per CDSL Operating Instruction 10.5.3, the DP should provide a statement of transaction to the BO for the quarter in which the closure request is received.

IA should check the date of receipt of the account closure request received from BO either in the form of ACF or a letter requesting for account closure and check whether statement of transactions for that quarter are sent to the BO with status "Account Closed / Marked for Closure".

The IA should check the proof of dispatch of such account closed to verify whether the transaction statements have been duly sent by the DP for the aforesaid account closure applications received during that quarter. It would be advisable to check whether the DP has sent the transaction statement within reasonable period from the end of the quarter. The IA should also check whether the records of dispatch maintained by the DP contain adequate details dispatch such as BO ID, Name of the holder and date of dispatch.

The IA should also verify for the selected sample the copies of transaction statement maintained by DP to confirm;

- Whether the Transaction Statement bears the stamp **"Account Closed / Marked for Closure"**.
- Whether the transaction statement so sent is for the period starting from the first date of the quarter till the date of closure of the account or the end of the quarter whichever is earlier.

Any adverse observations emerging out of verification needs to be reported in the inspection

report.

Delay if any in the account closure (Additional aspect to be verified and commented upon):

IA should get the list of accounts closed from the DPS8/DPS9 Report generated from CDAS. For the sample selected, Inward Register should be checked to note the date of receipt of account closure request form/ letter. Alternatively, the IA can also check stamping done by the Inward Department of the DP of the receipt date on the account closure request form/letter. This would bring out the delay if any on the part of the DP in closing the account.

Any instances of time gap in excess of 7 days between the request received and account closed needs to be reported under clause 2.2 above.

4.03 Whether DP gives 30 days' notice to BO before closing accounts, in case of account closure initiated by DP?

Verification Methodology:

CDSL vide Operating Instruction 10.5.4 has stated the procedure for account closure initiated by DP. This can be on account of reason such as,

- Non-payment of dues
- Violation of Rights and Obligations with DP
- Transfer to another DP/Main DP due to closure of Branch.
- Mistake in setting up BO master at the time of account opening

In first three cases, DP has to give a notice of minimum thirty days to the BO intimating DP's intention to close the account, citing the reason for initiating closure of the account. However in last case such notice is not required. This is because in case of account closure due to wrong entry, the account would be closed and a new account would be opened and for which no notice needs to be sent to the BO, provided that the DP had not informed the BO about the old account number.

To obtain the list of account closures initiated by DP due to reasons other than wrong entry errors, the IA should follow the below mentioned procedure

- First get the **DPS8/DPS9 report.**
- Set filter on the column which gives the field description as 'Account closure initiated by' to get the list of Account closures initiated by DP.
- Again, set the filter on the column which gives the field description as 'Closure reason Code" to identify the accounts which we closed for other than data entry error.

For the cases selected from the above list, IA has to check the closure approval date for such account closures from **DPS8/DPS9 report** and compare it with the date of notice sent to the BO. The IA can get to know the date of sending such notice from the proof of dispatch and the copy of the letter so preserved by the DP.

It may be pertinent to note that Operating Instruction 10.5.4 makes it mandatory for every DP to preserve a hard or soft copy of the letter sent to the BO for such account closure with the proof of dispatch. If the DP intends to maintain/store the copies of the notice letters sent to BOs, in electronic form, the DP shall ensure that the provisions of the I T Act, 2000 in this regard are complied with. Thus, non-availability of such documents should be brought to the notice of CDSL by mentioning the fact along with the instances of non-availability of such documents in the inspection report.

Any other adverse observations emerging out of aforesaid verification should be stated in inspection report along with instances.

4.04 Whether DP has complied with procedure of initiation of closure/transfer of balances/rematerialisation in case of account closure initiated by BO?

Verification Methodology:

In case a BO wants to close his account, he has to fill an Account Closure Form (ACF) and the procedure prescribed in the Operating Instruction 10.5.3. is required to be followed by the DP. BO may alternatively submit a letter signed by all the holder(s) containing all the details as per ACF to the DP.

ACF /letter should have provisions for the BO to indicate whether the balances (if any) in the BO account should be rematerialized and /or transferred to another BO account. IA should

check this from the ACFs on sample basis to ensure the same. The date of receipt and actual account closure request set up in the system should be verified to check whether Closure Request should be entered on the CDSL system within 7 days of receipt of the Closure Request. (Refer communiqué 2579 dated 27.07.2011)

Any other adverse observations emerging out of aforesaid verification should be stated in inspection report along with instances.

4.05 Whether the procedure prescribed for closing an account with pending demat position, is followed in case such cases is received

4.09 In case of account closure where demat request is pending for disposal by Issuer/RTA the procedure in Operating Instructions (10.5.3.19) is followed.

Verification Methodology:

The demat account can be closed only after balance is reduced to zero in the BO's Demat account. Therefore, it is necessary for DP to ensure that there are no demat request pending for the BO applying for account closure.

However, there are occasions when some demat requests given by BO are pending from RTA for substantial period of time. The CDSL Operating Instruction 10.5.3.19 talks about the procedure to be followed by the DP for closure of account with pending demat position.

(a) In cases where there are long-pending dematerialisation of shares of nonresponding companies, DPs should advise the BO(s) to submit the following documents to the Issuer with a copy marked to the electronic connectivity RTA and DP. In cases where the BOs wish to withdraw the demat requests pending disposal by Issuers / RTAs for a long time, in order to enable them to close their demat account(s) –

 A letter, as per the format given in Annexure 10.2 to the Issuer/Company, requesting for rejection of the pending demat request.

 A letter giving the DRN details which is duly signed and stamped by the DP. (For this purpose, DPs should generate a letter from the CDSL system using the "Print" button in the option "Inquiry" through the module "Dematerialisation" and provide the same to the BO. This letter would be addressed to the RTA.)

 On receipt of the above request from the BO, the DP should follow up with the concerned Issuer/RTA for rejection of the DRN that is set up, based on the long-pending demat request.
 On rejection of the demat request by the Issuer/RTA, the DP should set up an account closure request for closing the BO account, based on the Account Closure Form submitted by the BO. The remainder of the procedure to be followed is as given above for account closure.

(b) In cases where there are long-pending (more than 60 days) dematerialization of shares of non- responding companies, DPs should advise the BO(s) to submit a letter, addressed to the DP (as per the format given in Annexure 10.3) requesting the rejection of the long-pending demat request(s) so that the account closure process may be completed.
 On receipt of the above request from the BO, the DP shall send a letter to CDSL (as per the format given in Annexure 10.4), along with the letter received from the BO, requesting CDSL to reject/cancel the DRN(s) in the system, as the same is pending for more than 60 days.
 On rejection of the demat request by CDSL, the DP should set up a account closure request for closing the BO account, based on the account closure form submitted by the BO. The remainder of the procedure to be followed is as given above for account closure.

Any adverse observations emerging out of verification needs to be reported in the inspection report along with instances.

4.06 In case of demat account closure / shifting of the demat account from one DP to another, whether DP has complied with the procedure of refunding AMC for the balance quarter/s, in case the same is collected upfront on annual/half yearly basis?

As per SEBI circular dated 1.07.2010 and communiqué 2037 dated 2.07.2010, in the event of closing of the demat account or shifting of the demat account from one DP to another, the AMC collected upfront on annual/half yearly basis by the DP, shall be refunded by the DP to the BO for the balance of the quarter/s. The AMC for the balance period for which no service has been provided by the DP, should be refunded to the BO.

IA should take samples of account closed during the inspection period and check the cases of accounts closed in between the year and ascertain whether the AMC charges recovered upfront on annual / half yearly basis by the DP are refunded proportionately or not. IA can

check the client wise ledger maintained by DP to verify whether refund has been given to the BO. In case of deviation, the same should be pointed out as non-compliance.

4.07 Whether in case of account being shifted from one DP to another DP by using account transfer option / Across-Depository option in the transfer/transmission module or where waiver has been claimed in the inter-depository transfer, the procedure prescribed in this regard has been followed?

4.08 In case of Shifting of Account, procedure prescribed by CDSL is followed.

Shifting of an account by a BO from one depository participant to another DP may fall into the categories like:

1. Within CDSL – From Main DP to Branch DP or vice versa
   - From one CDSL DP to another CDSL DP
2. Outside CDSL-From CDSL DP to Other Depository

Verification Methodology:

1. Shifting of account within CDSL – From Main DP to Branch DP or vice versa

- **From one CDSL DP to another CDSL DP**

IA should ensure that as per CDSL O.I. 10.6.1.1, the BO intending to shift an existing account from CDSL DP to a DP of the other depository should open a new account with a DP of the other depository in the same order of names as in the existing account and obtain client master report from the new DP stamped and signed in case of physical copy or digitally signed in case of electronic copy by an official of the new DP. IA should ensure that the client master report along with following documents should be submitted to the CDSL DP with whom existing account is held:

- Duly filled and signed Account closure Request form with a remark in the 'Reason for closure' column as 'shifting of account'
- Signature of BO(s) matches with the specimen recorded in system

In case of shifting of account, as per communiqué 1922 dated 18.03.2010, requirement of submission of DIS for giving instruction to transfer the security balances in the demat account and return of unused DIS has been discontinued.

If all the documents submitted by the BO are not in order and the DP has executed the instruction, the same should be reported. IA should ensure that such request is executed through **'**Account Transfer / Across-Depository option' option in the 'Transfer/Transmission' module.

2. Outside CDSL-From CDSL DP to Other Depository

The procedure and documents to be obtained remains same as applicable to Shifting of account within CDSL as mentioned above.

IA should ensure that all the documents submitted by the BO are in order, DP should initiate account closure through the module 'BO Account Maintenance' by using the option 'Closure initiated by BO' DP should enter the request in CDSL system by using Across-Depository option in the 'Transfer/Transmission' module.

DPs can now prepare a batch of transactions in their back office and upload the same to CDAS system using common upload format. Upload file format is provided in Annexure – A. Uploaded transactions will appear in DPM6 – Success / Failure report for uploads & DPM7 – Error report for uploads as per communiqué no 3998.

Maker/Checker facility has been also provided for online data entry

In case account closure, due to shifting of account for any of the above case, DPs are required to obtain a declaration from the BO/s that all the transactions in the account are authentic. Since communiqué 2130 dated 6.10.2010 issued by CDSL, the format of account closure form has been revised and in account closure form itself, this declaration has been included. Hence, IA should not ask for a separate declaration and point out the same as non-compliance. Only thing to be ensured is that DP has used the new format of account closure.

Any adverse observations emerging out of verification needs to be reported in the inspection report along with instances.

4.09 In case of account closure, where demat request is pending for disposal by Issuer/ RTA, the procedure prescribed in Operating Instructions (10.5.3.19) is followed.

4.10 Applicable to the DP who has offered online closure facility to their clients:
DP has followed Online Closure guidelines as per Communique no. 311 dated July 16, 2021.

4.11 In case of online closure requests, DP has maintained, and stored system logs of the closure instructions and e-signed electronic requests received in electronic form in a secured manner. (100% audit)

Module V - Audit of Other Transactions/ Services

Preamble:

In addition to major services like enabling dematerialization and transfer of securities from/ to BO accounts, the DP also provides other value-added services to its clients, which include pledging, rematerialization, repurchase etc. Hence it is imperative for IA to verify whether the DP complies with the provisions laid by CDSL w.r.t such additional services provided. These areas along with relevant checks are covered below:

Part 1 - Methodology

5.01 Whether all formats used by the DP are in conformity with CDSL's prescribed format?

Verification Methodology:

CDSL has prescribed the format for various documents in its Operating Instructions which would be used by DPs. Accordingly; the IA needs to verify whether the documents and forms used by DP are in accordance with the format prescribed by CDSL. List of forms and their reference to the respective Operating Instruction and Communiqué is enlisted below. Further, IA may refer the link https://www.cdslindia.com/DP/OperatingInstructions.html

Sr. No.	Type of Forms	Reference
1.	**Account Opening and Modification:**	
	Additional KYC Form for Opening a Demat Account for Individuals	Annexure 2.1
	Additional KYC Form for Opening a Demat Account for Non-individuals	Annexure 2.2
	Rights and Obligations of Beneficial Owner and Depository Participant as prescribed by SEBI and	Annexure 2.7

Sr. No.	Type of Forms	Reference
	Depositories	
	Nomination Form.	Annexure 3.2
	Account Details Addition / Modification / Deletion Request Form	Annexure 3.1
2.	**Dematerialization:**	
	Dematerialisation Request Form	Annexure 4.1
	Transposition Request Form	Annexure 4.2
3.	**Account Closure**	
	Account Closure Request Form (ACRF)	Annexure 10.1
	Request Letter for Rejection of Pending Demat & Account closure	Annexure 10.2
4.	**Settlements**	
	Instruction Form for Purchase Waiver	Annexure 6.1
	Combined Instruction slip- Communiqué 1267 dated 9.09.2008	Annexure 6.2a
	Instruction Slip – Off Market Communiqué 1267 dated 9.09.2008	Annexure 6.3a
	Instruction Slip – On Market Communiqué 1267 dated 9.09.2008	Annexure 6.4a
	Grievances Redressal Mechanism to be printed on the inside back cover of the Delivery Instruction Slip Booklet (Refer communiqué 3237)	Annexure 6.6
	Fax Indemnity Format	Annexure 6.7
5.	**Transmission**	
	Transmission Request Form (In case of Sole Holder's Death) Revised as per communiqué 1879 dtd.2.02.2010.	Annexure 7.1
	Transmission Request Form (In case of Death of one of the Joint Holders)	Annexure 7.2
	Letter of Indemnity	Annexure 7.3
6.	**Pledging and Hypothecation**	
	Pledge Request Form (PRF)	Annexure 8.1
	Unpledge Request Form (URF)	Annexure 8.2
	Invocation Request Form (IRF)	Annexure 8.3
7.	**Rematerialisation/ Repurchase**	
	Rematerialisation Request Form (RRF).	Annexure 9.1
	Repurchase Request Form	Annexure 9.2

Sr. No.	Type of Forms	Reference
8.	**Freeze/ Unfreeze**	
	Freeze/ Unfreeze Request Form	Annexure 13.1

IA should compare the format of the requests/forms used by DP for the inspection period, with the aforesaid formats prescribed by CDSL. The IA should consider the following points while verifying the formats used by the DP for various documents:

- Whether the format used by the DP contains all the particulars as mentioned in the above-referred formats prescribed by CDSL. Here it would be pertinent to note that IA should give more importance to the contents of the format rather than just presentation.
- Any omission of any field/ clause/ particulars in the formats of the DP should be reported.
- In case if any format followed by the DP is not in conformity with that of CDSL, such mismatches would be clearly stated in the report.
- In case any clause is added to the format prescribed/ suggested by the CDSL which is contrary to the interest of the BOs, such clause needs to be clearly stated in the report along with the repercussions of implementation of such clause w.r.t. BO.

DPs have been advised to ensure that the modified format of the Account Opening Forms [Annexures 2.1 and 2.2], as given in communiqué 2787, are in place and exclusively used.

Revised Delivery Instruction Slip (Combined: On Market and Off –Market)

Additional information with regard to off-market transactions i.e. transfer from BO-(Investor) account to BO-(Investor) account is required to be entered by the BOs. If the off-market transaction is for consideration the amount would have to be mentioned. If there is no consideration involved, the reason would have to be furnished under options given therein.

Any adverse observations w.r.t. mismatches of format / content should be clearly stated in the inspection report. Apart from the formats mentioned above, IA also needs to verify any other formats e.g. any supplementary Rights and Obligations apart from DP-BO Rights and Obligations devised by particular DP to check whether it contains any clause detrimental to the interest of the BO.

5.02 Whether any indictments or any other orders have been passed against the DP by any competent authority, if any, and the same has been notified to CDSL within 7 days of passing the order?

Verification Methodology:

IA would ascertain whether any indictments or orders have been passed against the DP by any competent authority by any of the following methods:

a. The IA should confirm from the compliance officer of the DP about any of such order has been passed against DP.

b. IA should review the various correspondence files maintained at DP.

c. IA should review the trial balance of the DP to find out whether any fines or penalties have been levied on DP by any of the competent authority.

In case IA comes across any of such instances, he should check whether the time period between the date on which order is communicated and the date on which DP has informed the CDSL exceed seven days.

For this, the IA needs to:

a. Ascertain the date of receipt of order from inward register maintained by DP.

b. Determine the 'date of intimation' of such order to Depository from the acknowledgement received from CDSL. (source: Communication file with CSDL)

Any instances of failure to communicate or inordinate delay in communication to CDSL needs to be brought out in the inspection report.

5.03 (a) Whether Power of Attorney (POA) documents are duly executed as per SEBI guidelines and the same have been appropriately entered into CDAS? (Refer Communiqué **1977 & 2102)**

(d) The POA executed by a BO in favour of a stock broker has no clauses contradictory to SEBI guidelines.

(f) The DP has created master POA ID for all POA holders in CDAS and has been linked to the respective BO accounts and the same is updated in Back office system.

(g) In case of POA given by BO for pay-in purposes, valid CM accounts are mapped by the DP as mentioned in the POA documents (as per communique 5565)

(h) DDPI documents are duly executed as per SEBI/CDSL prescribed guidelines and **details (including signature of DDPI holder(s)) have been entered into CDAS.**

(i) Instructions processed on the basis of DDPI by DP are executed in those accounts where relevant DDPI is mapped.

(j) The DP has created master DDPI ID for all DDPI POA holders and has linked the same in CDAS to the respective BO accounts and the same is updated in Back-office system.

Verification Methodology:

A Power of Attorney is a document which empowers a specific person to act on behalf of the person who is executing the same. It should be understood that POA is an authoritative document which can be misused. Hence, CDSL has laid down various precautions in CDSL Operating Instruction 3.4.4, 3.4.5 and 3.4.6 which DP needs to adhere while setting up, modifying, deleting POA for BO.

In this regard, the IA needs to follow below mentioned procedure to verify the POA executed by the DP.

- The IA should get DPS8/DPS9 Report generated from CDAS to know the total number of BOs having POA accounts opened during the period under inspection. IA should select the sample as stated in Chapter 3.
- For the sample POA set up during the inspection period, IA should obtain the POA documents to verify,
- As per SEBI circular dated 23.04.2010 and CDSL communiqué 1977 dated 26.04.2010, the BO should have executed Power of Attorney as per the guidelines given by SEBI for execution of POA by BOs favoring stock brokers/ stock broker and DP.
    - Whether POA is signed by all joint holder(s). For this IA should verify the client master and compare the signatures of joint holders on POA with that appearing in BO master.
    - POA is duly stamped.
    - If a copy of the POA is submitted, the same should be certified as “TRUE COPY” by BO.
    - Whether the transactions executed by the power of attorney holder are

adequately covered by the POA.

- The DP should create master POA ID for all POA holders in CDAS and has been linked to the respective BO accounts and the same is updated in Back office system
- In case of POA given by BO for pay-in purposes, valid CM accounts should be mapped by the DP as mentioned in the POA documents (as per communique 5565)
- The IA should verify the details entered in CDAS from the details mentioned on the POA.
- As per clarification given by SEBI circulated to DPs vide communiqué 2102, broker DPs can communicate the BOs the deletion of clauses from POA document, adding of demat account details to move the securities from BO's account to CM principal account for the purpose of pay in of securities or margin purpose and bank account details. There is no need to execute the new POA document with the BO under the above circumstances. The changes other than the above needs to be executed the fresh POA document as per guidelines given in communiqué 1977.
- According to CDSL Operating Instruction 3.4.4.1, the DP needs to maintain a POA Register for POA received and set up in the system. Accordingly, the IA should verify whether POA register maintained by the DP is updated on regular basis. To verify this, the IA may get the latest accounts opened with POA and check whether the same is recorded in the POA register.

- DPs have been advised to inform existing BOs the mandatory requirement of registering for the SMS alert facility, and request them to submit their mobile numbers (for the purpose of registration for the SMS Alert facility), by August 31, 2009. POA registrations (new or modification) submitted on or after June 15, 2009, the registration of the mobile number of the BO, for the SMS Alert facility, shall be mandatory except in case of accounts held by non-individuals, foreign nationals and NRIs. Further DPs have been informed to update mobile number using alternate source of information (Communiqué 5017). Also DP should ensure that separate mobile numbers and email address are being captured for each client (based on first holder PAN) (Communiqué 5139/5146)

DP shall at all times, irrespective of subsequent variations and cancellations maintain updated Register of Power of Attorney "either in physical or electronic form which shall contain the following information: (operating instruction 3.4.4.1)

a) Power of attorney registration number
b) Date of registration
c) BO a/c number for which Power of Attorney is being received
d) Name of Power of Attorney
e) Address of Power Of Attorney
f) Remarks

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

(b) Whether set up/modification/cancellation of Power of Attorney is recorded in CDAS within the prescribed time from the date of receipt? (Refer Communiqué **1313 dated. 15.10.2008)**

Verification Methodology:

The DP shall ensure that all the joint holders sign the POA, if POA is granted by all of them. After verification of the documents for set up/ modification/cancellation of Power of Attorney, particulars of the same should be recorded in the CDSL system within 7 days of receipt by the DP, whichever is earlier. However, as per SEBI circular dated 23.04.2010 and CDSL communiqué 1977 dated 26.04.2010, POA executed in favor of a stock broker and Depository Participant by the client should be revoked anytime without notice by BO. Hence, the discontinuation of POA should be immediate after receipt of the request of BO.

The powers and authorities conferred by the existing POA shall continue until the request for modification/cancellation is recorded in the CDSL system within the prescribed time from receipt of the same by the DP.

The IA should verify the details entered in CDAS from the details mentioned on the POA for set up and request for modification /cancellation of POA and any adverse observation should be mentioned in the inspection report with details of such cases.

(c) Whether DP has mandatorily registered the BO for SMART (SMS Alert) facility, at the time of setting up POA? (Refer Communiqué **1645)**

(e)Whether in case of change SMS flag, caution has been exercised to check that the POA facility is de-registered and same is intimated to the BO.

It has been made mandatory registration for SMS alert for BOs registered for POA as per communiqué 1574 dated 12.05.2009. Registering for SMS alert facility made mandatory for BOs for POA registration on or after 15.06.2009 except in demat accounts of NRI/FN and non-individuals. (Communiqué 1611 dated 9.06.2009). DPs were advised to inform such existing BOs of the mandatory requirement of registering for the SMS alert facility, and request them to submit their mobile numbers (for the purpose of registration for the SMS Alert facility), latest by Monday, August 31, 2009. (Communiqué 1645 dated 16.07.2009). In case of change SMS flag, POA facility should be de-registered and same is intimated to the BO.

The registration or modification of mobile number for SMS alert (SMART) facility can be done through easi/ easiest login. A facility has been provided in the easi/ easiest users login for the same. BOs using the facility for registration /modification in mobile number in their BO account will not be required to submit the SMART registration / modification form to the DP. (Refer Communiqué 2561 dated 19.07.2011). Also DP should ensure that separate mobile numbers and email address are being captured for each client (based on first holder PAN) (Communiqué 5139/5146)

IA should take samples of BOs registered for POA during the inspection period and verify whether accounts opened after 15.06.2009 is registered for SMS alert. Any account which is not registered for the same should be pointed out as non-compliance.

5.04 (a) Registration of clients to easiest is done after obtaining registration forms.
(b) Whether Registration of Trusted accounts at easiest is done after obtaining Letter in the given format from trusted account holders?

Verification Methodology:

- CDSL has introduced “easi” facility which enables a BO to view his holding and transaction status through internet while “easiest” enables the BO to also give instructions through internet. However a BO can avail this facility only if the DP with which he has his account has registered itself with CDSL for easi / easiest facility. It is mandatory for all the DPs to register itself with CDSL for easi / easiest.
- The IA may confirm from CDSL Operations Dept. whether such DP is registered for easi / easiest facility. It may also be noted that CDSL also provides a list of DPs who have

registered themselves for easi/ easiest on the CDSL web site which can be used. The IA may also confirm from the DP Officials about the registration of easi / easiest system.

- The IA should check from the acknowledgement maintained by the DP, whether DP has duly filled the form in Annexure C for applying for easi / easiest System and submitted to CDSL.
- Communiqué 310 states that if the DP provides easi facility to its clients, it may not send monthly transaction statement in physical form, provided the DP has obtained a written consent from these BOs in Annexure A as prescribed by CDSL in the communiqué mentioned above.
- To verify this, the IA should take from the DP the list of clients who have availed the easi service and check whether DP has taken consent in format prescribed in Annexure A of the above mentioned Communiqué. In case if the consent is not collected, the IA should check whether the DP has sent monthly transaction statements to these clients from the dispatch records maintained by DP.
- **As per communiqué 1374 dated December 01, 2008** registration for "**easiest**", for the Main DP and Branch-DPs, is mandatory with effect from **January 01, 2009**.IA should point out any adverse observation.
- Any adverse observation emerging out of verification needs to be brought out in the inspection report along with instances.

(a) Registration of clients to easiest is done after obtaining registration forms.

- Registration of clients to easiest should be done by the DPs only after obtaining request from BOs in the format prescribed by CDSL. IA should check accordingly, and any non-compliance should be pointed out in the report. BOs have been allowed to register for easi as per process given in communiqué 2783 dated 29.12.2011.
- BOs who wish to register for **easi** have to click on "New Easi User' link available on the CDSL homepage- www.cdslindia.com For registration, BO should enter his 16 digits BO ID as a username and the password would be the PAN of the first holder and first four digits of his birth date i.e. date (DD) and month (MM) of the birthday (which should match with the details in CDSL system updated by the DP based on the account opening form). If date of birth is not available in CDSL system then the BO has to enter "0101". (Refer communiqué 2783).

(b) Whether Registration of Trusted accounts at "easiest" **is done after obtaining Letter in**

the given format from trusted account holders?

- If the BO is opting for 'Trusted Account option, he/she can transfer securities to the trusted accounts only. Trusted accounts are the accounts of clearing members, which BO will specify at the time of registration. BOs can map maximum 4 trusted accounts i.e. CDSL –CM accounts only. Trusted account option is not available to CMs registering "easiest". The BOs using this option can transfer securities to the designated CM accounts through off-market transfer or enter early pay in or on market instruction for pay in for trades done through the designated CMs. The BO should submit a letter in the prescribed format from the trusted account holder stating his no objection for transfer of securities from the account of client. "easiest" provides facility of adding or removing trusted accounts. For addition of trusted accounts clients are required to submit a letter from the trusted account holder in the given format to DP. For removal of trusted account clients will make online request through their log in to DP.
- IA should check the above and any adverse observation emerging out of verification needs to be brought out in the inspection report along with the instances.

5.05 Whether the DP has taken appropriate action on receipt any complaint for Data entry errors / omissions which may cause inconvenience and/ or loss to the BO/ system/ DP/ CDSL?

Verification Methodology:

One of the most critical areas of inspection is review of mechanism at DP for recording and redressal of grievances.

IA would come to know about grievances received during the inspection period and mechanism followed at DP by the following methods:

- Discussion with the DP officials
- Review of Grievance Register to find if there are any complaints from BO regarding error or omissions in data entry by BO.
- Scan through correspondence file maintained by DP.
- Review of 'Monthly Grievance Report' filed with CDSL during the inspection period.
- Exclusive email ID maintained by DP for advising grievance by BOs

The IA may look for complaints pertaining to subject matter mentioned below:
(Illustrative list of complaints for reference)

- BO account not opened in accordance with details mentioned in AOF.
- Modifications in client master not as per the modification request.
- Auction of securities due to omission on the part of DP to execute the instruction on time.
- Erroneous transfer of shares from/ to BO account.

For this IA needs to review the actual complaint letter received by DP.
IA should check from the above and ascertain whether any data entry errors/omission done by DP and complaints have been received causing inconvenience and or loss to the BO and the same in the nature of causing loss to the system/depository. IA should also check whether such grievances have been reported to CDSL by the DP in the BO grievance report being submitted every month by the DP and action has been taken to resolve the same. The lapses should be pointed out in the inspection report. In case of grievance of serious nature, not noted in BO grievance register and not attended to or informed to CDSL by the DP, the same should be immediately informed to CDSL by a separate communication without waiting for the final report to be submitted to CDSL. IA should also verify whether DPs are providing regular training internally and update the staff on various guidelines issued by SEBI with regard to various DP related activities with special focus on providing better services to the clients/BOs and reducing the number of avoidable complaints (Communiqué 5205)

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

5.06 (a) Whether any type of following instruction is processed as per procedure prescribed by CDSL/SEBI/ PMLA?

a. Pledge, unpledge, confiscation

b. Freeze, unfreeze, confiscation

c. Remat/repurchase

(Please specify instances against each type of instruction)

Verification Methodology:

A. Pledge and Unpledge:

IA should thoroughly go through CDSL Operating Instruction 8.5 which states the precautions to be taken by DP while processing pledge and unpledge requests.

At first, IA should obtain **DP57 Report** from the DP to ascertain the total number of pledge request set up during the inspection period. For selecting sample of unpledge requests, filter can be applied on unpledge column (line no.2) and dates of unpledge. IA should select the sample as stated in **Chapter 3** for verification.

Pledge:

To verify whether the procedure followed by the DP is in conformity with that prescribed by CDSL, an IA should obtain on sample basis the copy of Pledge Request Form (**PRF**) request received from the clients and verify the following:

- Whether the PRF is in the format prescribed by CDSL in Annexure 8.1of Operating Instruction.
- Whether the PRF is duly filled.
- The IA should cross check from the Client Master to verify whether PRF are signed by all joint holder(s).
- Whether the pledge request set up in CDAS is in accordance with the details provided in PRF. For this, IA should check, on sample basis, the details entered in CDAS or details of the letter generated from CDAS with the details mentioned in PRF.
- Whether Pledge Setup Number (**PSN**) generated by CDAS on setting up of request is correctly recorded on the PRF. The IA can check this by physical verification of the forms.
- Whether the PRF is duly signed and stamped by an authorized official of the DP. The IA can check this by physical verification of the forms.
- Whether the DP has sent one copy of PRF to the BO. The IA may check the dispatch records or other postal proofs as trail of dispatch.

Unpledge:

To verify whether the procedure followed by the DP is in conformity with that prescribed by CDSL, an IA should obtain on sample basis the copy of Unpledge Request Form (**URF**) request received from the clients and verify the following:

- Whether the URF is in the format prescribed by CDSL in Annexure 8.2 of Operating Instruction.

- Whether the URF is duly filled.
- The IA should cross check from the Client Master to verify whether URF are signed by all joint holder(s).
- Whether the unpledge request set up in CDAS is in accordance with the details provided in URF. For this, IA should check, on sample basis, the details entered in CDAS or details of the letter generated from CDAS with the details mentioned in URF.
- Whether URN generated by CDAS on setting up of request is correctly recorded on the URF. The IA can check this by physical verification of the forms.
- Whether the URF is duly signed and stamped by an authorized official of the DP. The IA can check this by physical verification of the forms.
- Whether the DP has sent one copy of PRF to the BO. The IA may check the dispatch records or other postal proofs as trail of dispatch.

In addition to this, the IA should verify whether the DP has in place a maker-checker system for execution of pledge and unpledge request by checking the pledge/ Unpledge requests set up. In addition to the verification of maker and checker rights in the system, presence of initials and sign off of makers and checkers on PRF and URF would confirm maker-checker system.

Invocation:

Invocation of Pledge means confiscation of securities by the Pledgee in accordance with the agreement between the pledgor and the pledgee. At first, IA should obtain **DP 57 Report** from the DP to ascertain the total number of invocation requests set up during the period under inspection. IA should select the sample as stated in **Chapter 3** for verification.

Invocation of Pledge:

To verify whether the procedure followed by the DP is in conformity with that prescribed by CDSL, an IA should obtain, on sample basis, the copy of Invocation Request Forms (IRF) received from Pledgee and verify the following:

- Whether format is in accordance with Annexure 8.3 of Operating Instruction.
- Whether the Invocation request is duly filled and is signed by all the holders of the pledgee account. IA can verify this by generating the corresponding pledge request for a particular invocation request on the basis of PSN from CDAS to verify the total number of holders of that pledge account.

According to CDSL Operating Instruction 8.5.5, the acknowledgment letter stating the details of the confiscation generated from CDAS should be sent to the Pledgee after affixing stamp of the DP and initiated by an authorized official of the DP. The IA should check this from the dispatch records maintained by the DP.

Pledgor DP as well as Pledgee-DP should ensure that appropriate action taken i.e. Pledge/Unpledge/Confiscation requests are processed within 15 days from the set up date or any such period as specified by CDSL from time to time. If the same remain pending for more than specified period of time after the set up date, it will be cancelled by CDSL during EOD of day of expiry period.

Margin Pledge/Repledge

IA should thoroughly go through CDSL Operating Instruction 8.6 which states Trading Members (TM) / Clearing Members (CMs) can accept collateral from clients in the form of securities only by way of Margin Pledge (MP) created in the depository system. For the purpose of providing collateral in form of securities as margin, a client can margin pledge securities with TM, and TM can re-pledge the same with CM, and CM in turn can re-pledge the same to Clearing Corporation(CC).Refer SEBI circular SEBI/HO/MIRSD/DOP/CIR/P/2020/28 dated February 25, 2020 & Communique 2020-115 dated March 2,2020.

B. Freeze/Unfreeze:

Depository provides a facility to the BO for ‘Account freezing’. Freezing can be applied based on transaction type i.e. only debits, only credits and both debits and credits can be freezed. The reason may be for withholding securities for long term, locking of the securities for the purpose of loan or any other commitments, etc. The BO may choose to freeze the entire account or only a particular ISIN.

Before commencement of the verification of freeze requests, IA should get a list of freeze cases from the **DP57** report generated from CDAS for inspection period.

For selecting sample of unfreeze requests, IA should generate **DP57** report from CDAS since inception and apply filter on unfreeze column (line no.2) and dates of unfreeze. IA should select the sample as stated in **Chapter 3** for verification.

a. Freeze initiated by BO:

If freeze request is given by the BO the IA should verify

- whether the request submitted by the BO is in the format as prescribed in Annexure 13.1 of Operating Instruction,
- whether all the holder(s) to the account have signed the Freeze request,
- Freeze request has been duly filled and complete.

IA should check whether the DP official has recorded the unique freeze instruction number generated from the system on the Freeze/ Unfreeze Request Form.

Besides this, according to Operating Instruction 13.5.1.1 the DP should send to BO an acknowledgement letter duly signed and stamped by an authorized official. The IA should ensure from the dispatch records that an acknowledgement of freeze set up, is sent to the BO. Thus, it becomes important that the DP maintains appropriate dispatch records with particulars like BO ID of the recipient, Date of dispatch, etc.

b. Freeze initiated by DP:

The IA should get the **DP57 Report** generated from CDAS for the inspecting period to know the number of freeze cases initiated by DP. In these freeze cases that initiated by the Depository Participant, the IA should check the documentary evidence of:

- Order from Statutory/ Regulatory authority;
- Approval from CDSL to create lien on the balances in the BO account.

The IA should verify whether DP has, on setting up of freeze instruction, recorded the Freeze ID on the statutory order and sent an acknowledgment to the BO for freeze executed. The acknowledgement sent can be tracked from the dispatch records maintained by the DP. Also, the DP is required to maintain a copy of the acknowledgement sent to the BO intimating about the freeze of his account.

Unfreeze:

Any instruction to freeze the securities or the full account will be reversed by giving an

Unfreeze request. As discussed above a freeze request can be initiated by either the BO or the DP and similarly, unfreeze request will be given by the BO or the DP respectively. The IA needs to get the number of cases of unfreeze request in the inspection period by getting the **DP57 Report** generated from CDAS.

a. Unfreeze initiated by BO:

An IA is required to satisfy himself that an unfreeze request initiated by the BO was originally frozen under the request of BO. For this the IA should on the basis of system generated Freeze ID spool the corresponding freeze request to verify the reason under which the original freeze instruction was executed.

In such case, the IA should also verify whether the DP has executed the unfreeze request only on acceptance of the Unfreeze Request Form as prescribed in Annexure 13.1 in Operating Instructions.

The IA should verify whether Unfreeze request is duly filled and signed by all the joint holder(s). The IA should also verify whether there is a system in place to execute the request only on verification by the Senior DP official for which IA can verify whether initials of senior officials are appearing on Unfreeze request.

The IA should verify whether the DP has sent an acknowledgement to the BO for unfreeze request executed with the dispatch records maintained by the DP.

b. Unfreeze initiated by DP/ Statutory or Regulatory Authority:

A freeze initiated by DP can be unfrozen only by the DP. Similarly, if a freeze order was issued by any statutory or regulatory authority as mentioned earlier, the same can be unfrozen only on the approval of such authority. The IA should verify statutory order supporting execution of unfreeze instruction.

The IA should verify whether DP has, on setting up of unfreeze instruction, recorded the Unfreeze ID on the statutory order and sent an acknowledgment letter to the BO for unfreeze executed. The acknowledgement sent can be tracked from dispatch records maintained by the DP. Also, the DP is required to maintain a copy of the acknowledgement sent to the BO intimating about the freeze of his account.

Any adverse observations emerging out of verification needs to be pointed out in the inspection report along with the instances.

C. Remat Transaction/Repurchase:

Remat Transaction

The IA should get **DP 57 Report** generated from CDAS which would give the total number of rematerialization setup during the period under consideration and select the sample as stated in Chapter 3.

For the sample selected for verification, IA must acquire the copy of Rematerialization Request Form (RRF) collected by the DP from the BO to check whether:

- RRF is in the format prescribed in Annexure 9.1.
- RRF is duly filled and complete w.r.t. Name(s) of the Beneficial Owner(s), BO ID, Address, ISIN, Name of the Issuer, and Quantity of securities requested for rematerialization.
- RRF is duly signed by all the joint holder(s). IA should verify the signature appearing on RRF with those appearing in BO master.
- RRN generated by CDAS on set up of remat request is entered on RRF. This can be checked directly from CDAS or Remat set up copy.
- DP has authorized the RRF with its seal and signature. For this, the IA needs to verify the physical forms.

The IA should also verify that the RRF is forwarded to RTA within seven days from the date of receipt of RRF from BO. The IA should compare the date of dispatch of the RRF from the dispatch records with the stamp of date of receipt affixed on the RRF or any other record mentioned for inward.

Repurchase Transaction:

When BO intends to offer his securities for repurchase to the Issuer, for the demat shares available in his demat account, he has to submit a Repurchase / Redemption Request Form.

The IA should get the **DP57 Report** generated from CDAS and then apply filter on ISIN field to know the number of Repurchase cases set up in the inspection period and select the sample as stated in Chapter 3.

The following points should be taken into consideration by the IA while verifying the repurchase cases:

- The Repurchase / Redemption Request Form (RRF) is as per the format prescribed by CDSL in Annexure 9.2.
- RRF should be signed by all joint holders. IA should verify the signatures appearing on the RRF with the signatures appearing in the BO master.
- The form is duly filled with all the details.
- The DP has accurately entered the Bank details as filled in the RRF.

The IA should ensure that the DP has set up the repurchase request in CDAS either on the date of receipt of request or latest by the next working date for which IA may compare stamp of date of receipt affixed on the RRF with the date of repurchase set up copy.

The IA should also verify that the RRF is forwarded to RTA within seven days from the date of receipt of RRF from BO. The IA should compare the date of dispatch of the RRF from the dispatch records with the stamp of date of receipt affixed on the RRF or any other inward record maintained.

The IA should verify whether any remat request has been rejected by the RTA. In case of rejection of RRF by the RTA, the DP should have taken steps to carry out the necessary rectifications and set up a fresh remat request after consultation with the BO. Any adverse observation emerging out of verification needs to be brought out in the inspection report along with the instances.

5.06(b) Whether Proper PAN details (as prescribed under guidelines of CDSL / SEBI / PMLA) are obtained and entered in CDAS and KRA process followed before unfreezing an account which was frozen for debit due to non-availability of PAN?

DP should unfreeze the account only after obtaining the correct Pan details and PANCARD copy. Any deviation should be pointed out as non-compliance.

5.07 Whether the transmissions effected, if any, have been done in accordance with the procedure stipulated by CDSL/SEBI/PMLA like obtaining duly filled TRF and notarized copy of death certificate? (Refer operating instructions 7.6)

Verification Methodology:

Transmission is a process for transferring the title of securities in favor of nominee or successor in case of death of any account holder.

CDSL provides a list of transmission requests processed by DP during inspection period to take as a base for verification. This list should be used by the IA for sample selection and further verification of transmission cases in the inspection period. IA should ensure that precautions given in operating instructions 7.5 (as per communiqué 1685 dated 18.08.2009) are observed /followed by DP.

The IA should then ascertain from the Client Master whether the death is of the sole holder of the account or one of the holders of a joint account. Also, the IA should check whether in case of death of sole holder the same is with or without a nominee as the documents required and procedure to be followed is different in each of these cases. The IA should note that the transmittee BO should have an account with the concerned DP or with any other DP registered with CDSL/Other depository.

1. Death of Sole Holder:

The IA may refer to CDSL Operating Instruction 7.6 to become familiar with the procedure prescribed by CDSL in case of death of sole holder(s) of the demat account. Such sole holder may or may not have appointed nominee. The various aspects which are to be verified in each of these cases are outlined below:

a. For sole holder who had appointed nominee:

If deceased BO has nominated a person, following aspects need to be verified by IA for checking such transmission cases:

- Transmission Request Form in the format prescribed in Annexure 7.1 of the Operating Instruction and is duly filled with all details such as name of deceased BO, BO ID, Successor BO ID, Details of securities, and signature of successor.

The nominee has attached Original or copy of the death certificate of the deceased holder(s) duly notarized or attested by a Gazetted Officer.

- If the successor has demat account with any other DP, then IA should ensure that the nominee has attached the Client Master of his account in another DP. The IA should also check whether the Client Master so attached is of sole account of such successor, as the securities would have to be transferred to that account.

b. For sole holder who has not appointed a nominee :(Refer revised operating instructions 7.6.1 B as per Communiqué **1685 dated 18.08.2009 for detailed procedure)**

- The IA should verify from the Client Master maintained by the DP to confirm that the deceased Client had not appointed any nominee. IA has to verify that in addition to the above mentioned documents as stated in "point a" the DP collects **any one** of the following documents from the successor before setting up transmission in CDAS.
  a) A Succession Certificate, or
  b) A Letter of Administration, or
  c) A Probate of the will of the deceased.

- If the successor is unable to provide documents mentioned in the above paragraph, IA has to verify whether following additional documents are taken on record before setting up transmission request for accounts not having securities balance above a prescribed amount (presently **Rupees Five Lakh** as per SEBI circular CIR/MIRSD/10/2013 dated October 28,2013 ,Refer Communique 4023 dated November 1,2013 & CDSL operating Instruction 7.6.1) as on the date of death of the BO:
  a) Letter of Indemnity executed by the applicant on non-judicial stamp paper of appropriate value, duly notarized (Annexure – 7.3)
  b) An Affidavit from the applicant executed on non-judicial stamp paper of appropriate value and notarized (Annexure 7.5).
  c) 'No objection letter(s)' from all legal heir(s) who are not applicants conveying no objection to the transmission of the relevant securities in favor of the applicant(s) - (Annexure – 7.1).

In this case the IA not only needs to verify the above documents but should also obtain the trail / records of valuation done by the DP for the securities in the deceased BOs account and verify whether the market value of the securities held in each of the accounts of the deceased BO as on the date of application for Transmission does not exceed Rs. 5,00,000/- or such other amount as may be specified by CDSL and or SEBI from time to time.

- Further the IA should ensure that if there are more than one successor/claimants to any deceased BO, only one transmission request form should be submitted to DP.
- The IA should verify whether the details in transmission request form is in conformity with the BO details as per the Client master.
- IA should verify whether DP official has matched the copies of the documents, as mentioned above, submitted by the Claimant (Successor) with the original documents. "**Verified with Original**" stamp along with the initials of DP official are evident of the fact that copies of the documents are verified with the original.
- Another important aspect which the IA needs to verify is whether any instruction other than the transmission request were executed in the deceased BO's account after the intimation of death of the holder by the DP. Receipt of notarized copy of death certificate / original death certificate should be treated as the intimation of death. or Death certificate downloaded from the online portal of Government carrying digital/facsimile signature of the issuing authority. In case death certificate is downloaded from the online portal of Government, the authorised official of the DP should verify the details from the Governments website or from the office of the concerned registrar (birth/death) and keep a record of the same with his signature and stamp of DP.

- In case if the successors express their inability to submit the documents like Succession certificate, Letter of administration or Letter of Probate and the market value does not exceed Rs.5,00,000/- on the date of application by the claimant, the obtaining of document like Letter of surety has been discontinued, Letter of indemnity should be submitted by the applicant(s) only. An alternate to NOC, Family settlement deed can be accepted provided it clearly vests securities in the name (s) of claimant(s) and is not contingent upon any other onerous conditions in family settlement deed. (Refer communiqué 4023dtd. 01.11.2013 for more details).

2. In case of death of one of the joint holder(s):

The IA may refer to CDSL Operating Instruction 7.6.2 to become familiar with the procedure prescribed by CDSL in case of death of one of the joint holder(s) to the account. Following aspects need to be checked during the verification of such cases.

- Whether the TRF is submitted in the format prescribed in Annexure 7.2 and it is duly filled.

- The IA should check whether the TRF is signed by all the remaining joint holders to the account. Original or copy of the death certificate of the deceased holder(s) duly notarized or attested by a Gazetted Officer is on record of DP.
- In case the joint holder(s) has/have a demat account with some other DP of CDSL. Client master (Report DPS8/DPB9) of the joint holders should be attached. IA should check names of the holders appearing in the new master with the names of successor's account to ensure that the order of the names is same excluding the name of deceased.
- The order of the successor's account should be the same. If the account is in the name of A, B&C and B dies, the successor's account should be in the order of A&C only. A should verify whether DP official has matched the copies of the documents, as mentioned above, submitted by the Claimant (Successor) with the original documents. "**Verified with Origina**l" stamp along with the initials of DP official are evident of the fact that copies of the documents are verified with the original.
- The requirement of obtaining a DIS along with the transmission request form for transmission of securities to be signed by remaining joint holders has been waived .(Refer Communiqué 2112 dated 17.09.2010)

Pledged securities will not be transferred out of the account till such time the encumbrance is removed or obligation is met. In case of inactive ISINs due to pending corporate action or ISINs are frozen for debit /credit, ISINs will not be transferred out of the account and account will be converted into "To be closed" status. However at a later date, when the ISINs which are 'Frozen for debits and / or credits' are activated or the corporate actions pertaining to the inactive' ISINs are processed and the securities are transferred to a new / resulting ISIN in the BO's account, the DP may process the transfer of the said securities to the account of the transmittee BO(s) based on a copy of the Account Closure Request / Transmission Request Form / DIS (for Inter – depository transfers) submitted earlier. (Refer operating instruction 7.5.8)

According to CDSL Operating Instruction 7.6.2, after the transmission procedure is completed, DP is required to send statement of transactions to the Transmittee BO. IA needs to check for sample case of transmission whether such transaction statements are sent to BO. In case the account of transmittee BO is with other depository, the DP should use Inter-depository module of CDAS. All transmission request received by DP should be processed within 7 days from the date of receipt of required documents. The original account should be closed when all securities are transmitted and balance in the account is reduced to 'nil'

5.08 Whether statement of account (transaction/holding statement) / Consolidated Account Statement (CAS) / Bill Cum Statements (DBS)- is being sent to BOs as per CDSL requirements? (Refer O.I. 16.3& 16.6) - communiqué 4840/4900/5197

a. Whether Main DP sends the statement of account to all its BOs including live connected branches?

b. Whether written consent of the BO is obtained before sending statement of account in electronic form?

c. Whether statement of account is sent under digital signature of DP official?

Verification Methodology:

DP is required to send transaction statement at least at the end of every month if there has been even a single transaction during the month and at the end of the quarter when no transaction happened in the account during the quarter.

The IA needs to confirm whether the DP has controls in place to verify whether transaction statements / Consolidated Account Statement (CAS) Bill Cum Statements (DBS) have been sent to all the registered BOs. To ensure this, the IA should get the **DPC5 Report** (Monthly Transaction Report for all the BO for all Cycle Code) spooled from CDAS for knowing the BOs to whom monthly transaction statements were due to be sent and **DPG5 Report** (No Transaction Report, in which there is not transaction for Quarterly) for BOs not having any transaction during the quarter thus eligible for receiving Quarterly Transaction Statements. The IA should compare the dispatch list of BOs maintained by the DP with the above-mentioned reports to ensure that the transaction statements have been dispatched properly.

The IA may note that the Main DP not only needs to dispatch the transaction statements to the BO registered at the Main DP but also to the BOs registered through its branches. For verifying this, the IA should check on, sample basis, the POD of the monthly transaction statements for BOs specifically for each branch of the DP. IA should select sample as stated in **Chapter 3** which should mainly cover BOs registered through branches. However, exemption for sending transaction statements to BOs in respect of demat accounts with no transactions has been given to DPs. For further details refer operating instructions 16.7(communiqué 1640 dated 11.07.2009)

In addition to this the IA may also consider scanning through Investor Grievance Register for any complaints relating to non-receipt of transaction statement by BO for any month/period. In

case, the IA comes across any such complaint he may ascertain the reason and corrective action taken by the DP officials.

If the DP generates transaction statement through back office software the IA may review the criteria specified in the system for generation of transaction statement set up.

As per the Regulations 49 (1) (c) of SEBI (Depositories and Participants) Regulations, 1996, DP needs to maintain records of transaction statement provided to BO. Accordingly, IA should check that the DP has maintained a proof of dispatch for the transaction statement sent to BO. Following suggested particulars may be considered as sufficient information maintained by the DP:

- Date of Dispatch;
- Dispatch Reference No.
- Mode of Dispatch (Courier, Post, etc.)
- Courier POD number
- BO ID of client to whom the Transaction Statement is dispatched;
- Period for which the Transaction Statement is dispatched.

b. Whether written consent of the BO is obtained before sending statement of account in electronic form?

c. Whether statement of account is sent under digital signature of DP official?

To send the transaction statement in electronic mode DP is required to give Rights and Obligations document to the BOs and keep acknowledgement on record as per format given in communiqué 4095 and BO needs to inform DP his/her consent specifically in writing or as a part of account opening form for sending the statement of account/holding statement. BO also needs to inform the email ID on which e-statement should be sent. If no email ID is mentioned separately, DP should send the e-statement at sole/first holders email ID stated in the account opening form (refer Communiqué 2453 dtd.13.05.2011) under digital signature to BOs and log to that effect should be maintained and the same should be made available for verification of IA.

In case of any deviation, IA should observe the same in the inspection report.

Note: As per communiqué no 3384, if the job of dispatch of transaction and holding statements is assigned to CDSL for specific BOs, then IA should check whether the Main DP has followed the procedure prescribed by CDSL for the remaining BOs to whom the statements are to be

dispatched by the DP.

5.09a Whether DP has ensured that statement of account and holding statement is sent to the BO's permanent address at least once in a year, in case the third party address has been accepted as a correspondence address of a BO? (Refer Communiqué **2203)**

IA should verify that in case of correspondence address of third party has been given by the BO, transaction statement is sent on permanent address of the BO once in a year as per SEBI circular CIR/MRD/DP/ 37 /2010 dated 14.12.2010 and communiqué 2203 dated 16.12.2010.

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

5.10a For aacounts with zero balance and Nil transactions during the year. DP sends one physical statement of holding annually to such BOs. (Refer comm. 3190)

The DPs should send one physical statement of holding annually to such BOs and should resume sending the transaction statement as and when there is a transaction in the account.

(b) For Accounts which become zero balance during the year, DP sends an annual statement of holding to such BOs.`

For such accounts, no transaction statement may be sent for the duration when the balance remains nil. However, an annual statement of holding should be sent to the BO.

(c) For Accounts with credit balance(s) (holdings) but no transactions during the half year, DP sends one statement of holding half yearly to such BOs.

For accounts with credit balance but no transactions during the year, one statement of holding for the year should be sent to the BO.

(d) If the job of dispatch of transaction and holding statement is assigned to CDSL for specific BOs, whether Main DP dispatches the same to the remaining BOs.

In case job of dispatch of transaction and holding statement is assigned to CDSL for specific BOs, main DP should dispatch the transaction and holding statements to the remaining Bos

5.11 a. Are the staffs operating the CDAS appropriately trained? (Refer O.I. 17.6) – mention the number of staff trained at CDSL .

b. Whether each service centre employs trained staff commensurate with the type of function allocated and as prescribed by CDSL as per Communiqué **876? [Refer O.I.17.7(2)].**

c. Whether DP has signed an agreement with the franchisee covering services that can be offered by the franchisee and the same is kept on record?

d. All associated persons other than those engaged in basic elementary / clerical level activities & supervised by NISM DOCE certified personnel are NISM-Series VI DOCE certified/attended CPE programme as applicable to grandfathered employees. (Refer comm. 4650 dated 21.08.2014)

e. Compliance Officer of the DP has obtained NISM-Series-IIIA: Securities Intermediaries Compliance (Non-Fund) Certification Examination ("SICCE") as per SEBI notification dated 11th March 2013. (Refer Communique 3549)

Verification Methodology:

IA shall refer to the CDSL operating instruction 17.6and communiqué 2427 dated April 30, 2011, 3549 dated March 13, 2013 , 3170 dated July 13, 2013 and 4650 dated August 21, 2004 all DPs i.e. its Main DP office as well as its live connected branches having direct connectivity with CDSL should have at least:

To enable the DP staff to have full knowledge of the depository system with a view to serve their clients better, the DP should have adequately trained staff at the Main DP / Live connected branches / service centres

a. All the Associated Persons should hold valid certificate of having passed the NISM-Series-VI: Depository Operations Certification examination or if eligible should have successfully completed Continuing Professional Education (CPE) program provided that for associated persons doing basic elementary level work (as specified by CDSL) and whose work is supervised by National Institute of Securities Markets (NISM) Depository Operations Certification Examination (DOCE) certified personel, passing of DOCE exam is optional.

b. The Compliance Officer should hold valid certificate of having passed NISM-Series-III A: Securities Intermediaries Compliance (Non-Fund) Certification Examination by 11th March 2015.

c. At Main DP and their live connected branches at least one person should have undergone the four-day training programme conducted by CDSL.

DPs should sign an agreement with the franchisee, covering services that can be offered by the franchisee. Such agreement should be kept on record.

Accordingly, the IA should check the agreement available with the service centre.

Any adverse observation emerging out of verification should be reported to CDSL along with the details.

5.12 a. Whether all the grievance of BOs arising at the main DP or at the branch are recorded properly and redressed within the stipulated time of 30 days(except disputes/ court matters)**?**

b. Whether BO grievance which are pending for more than 30 days (for reason other than 'pending demat') are appropriately reported to CDSL through monthly BO grievance report?

c. Whether DP has designated e-mail id for investor grievances and displayed the same on the website as per SEBI circular no. MRD/DOP/Dep/SE/Cir-22/06 dated December 18, 2006? (Refer communiqué 816)

d. Grievance redressal mechanism is printed on the inside back cover of DIS issued by DP as per SEBI Circular (Comm. 3237)

e. DP displays information regarding Grievance Redressal Mechanism as per SEBI circular no. CIR/MIRSD/3/2014 dated August 28, 2014 at their offices.

f. The DP has informed CDSL about all grievances received from the BOs irrespective of whether such complaints are received by them directly from the BO or through CDSL or through Scores.

g. The DP informs the investors of the action taken to redress the grievances.

h. DP has provided a link to SCORES portal, within the demat account dashboard of clients to make it easier to lodge grievances (Refer Communique no. 2018-132) and display the information on their website. (Refer Communique No. 2019-332)

i. DP has published investor charter on his website in accordance with CDSL Communique no. CDSL/OPS/DP/POLCY/2021/589 dated December 25, 2021

j. DP is complying with the following requirements w.r.t. Investor Grievances Escalation Matrix displayed on their website as per CDSL Comm. CDSL/IG/DP/2022/653 dated November 10, 2022:

• Contact numbers mentioned in Escalation Matrix are not same for more than one or for all escalated levels.

• Contact numbers are in use and are reachable during working hours.

• IVRS allows the caller to reach the desired escalated level and call is being handled by the escalated person.

k. DP has displayed Investor Grievances escalation matrix on their website in order to further strengthen the process of handling Investors Grievances as per communique issued by CDSL (Ref Comm CDSL/IG/DP/2022/468 dated August 17, 2022 and CDSL/IG/DP/2022/653 dated November 10, 2022)

One of the most critical areas of inspection is review of mechanism at DP for recording and redressal of BO grievances. The inspection team may examine the system available with the DP for the recording and processing the grievances (Communique 4891 for SCORES) and the same may be brought out in the report. It may be ascertained that a proper system is in place to ensure that all the complaints received either through mail, phone, personal visit of the investor, e-mail or any other medium, are properly recorded in the BO grievance register with unique reference number for future reference.

IA would come to know about the grievances received by DP during inspection period by any of the methods mentioned in **Question 1.6.**

Following aspects must be checked while review the system of recording and redressing the BO grievances:

- Such BO Grievance Register should contain comprehensive details of the grievances received. Following are the suggested contents of the Investor Grievance Register which

the IA may consider as sufficient:

- Unique reference number
- Date of receipt of the grievance
- BO ID of the complainant
- Mode of receipt of grievance
- Nature of complaint
- Corrective action taken
- Date of resolving such grievance
- Communication sent to the BO
- Signature of Senior Official

- The Investor Grievance Register should be kept in the custody of a Senior Official. The records maintained in it should be with indelible ink which cannot be erased. The Register should not be in loose filing format and the pages should be duly numbered.
- IA should also review the supporting files containing complaints and other correspondence files maintained by DP of BO, CDSL and branches to ensure that BO grievance register is complete with all the grievances received by the DP.
- It may be noted that BO grievance report is required to be submitted on monthly basis to CDSL by Main DP including the grievances for the live connected branches on or before 10th of the next month. BO grievance report is required to be filed with CDSL mandatorily through electronic mode as per format and procedure given in communiqué the revised format as per communiqué 215 dated April 28, 2017 which is aligned with the requirement of submission by the DP in SCORES as per the communiqué 3995 dated October 22, 2013

b. Whether BO grievances which are pending for more than 30 days (for reason other than 'pending demat') are appropriately reported to CDSL through monthly BO grievance report?

In terms of the provisions of Regulation 20 (2)(e) of SEBI (D&P) Regulations, Bye-Law 5.3.5.4 and Clause 7.1.3 of the agreement with CDSL, every DP is required to submit a BO Grievance Report to CDSL on a monthly basis by the 10th of the following month. A consolidated report is to be submitted by the Main DP for all its branches, if any. In case the DP does not have any grievance to report, a "NIL" report has to be submitted. DPs should take

care that grievances received by them through all modes i.e. letters, emails, personal visits, etc. should be reported to CDSL. The format of the BO grievance report is given as Annexure 17.4.

The IA should verify the date of receipt and redressal as mentioned in the Investor Grievance Register with documentary evidence from the correspondence file to ensure that the DP has redressed the grievances within thirty days of its receipt.

The IA should check from the Investor Grievance Register whether any such recorded complaint has not been redressed by the DP. In case where the compliant is pending for more than 30 days, the IA should check whether the same is reported to CDSL in the **Investor Grievance Report**. Besides this, as per CDSL Bye law 5.3.5.4 & Clause 24 of Rights and Obligations with CDSL, the DP should submit the information about the number of complaints received from BOs during the month, complaints redressed during the month, complaints remaining un redressed, their nature and status thereof and the steps taken by the DP for redressal thereof, before the 10th day of every succeeding month. Thus the IA should also check the monthly grievance reports submitted to CDSL for intimating such grievance. BO grievance report is required to be filed with CDSL mandatorily through electronic mode in the revised format as per communiqué 215 dated April 28, 2017. In addition to the above facility, CDSL has provided online facility to DP's (Refer Communique 163 dated March 30,2020) to upload / download Investor Grievance related correspondence through electronic mode. Thus, the IA should also check the complaint status through the same mode.

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It may be pertinent to note that in case of no grievance, the DP is expected to sent a null report to CDSL and maintain blank BO Grievance register. Any adverse observation emerging out of verification needs to be brought out in the inspection report along with the instances.

c. Whether DP has designated e-mail id for investor grievances and displayed the same on the website as per SEBI circular no. MRD/DOP/Dep/SE/Cir-22/06 dated December 18, 2006? (Refer communiqué 816)

SEBI has vide circular No. MRD/DoP/Dep/SE/Cir-22/06 dated December18, 2006 directed to designate an exclusive Email ID of the grievance redressal department or compliance officer for the purpose of registering complaints of investors and for taking necessary follow-up actions. The exclusive email id should be prominently displayed on the DP's website and in the

various materials/pamphlets/advertisement campaigns initiated by the DP for creating investor awareness.

- IA should check that an exclusive email ID has been created by the DP of the grievance redressal department or compliance officer for the purpose of registering complaints of investors and for taking necessary follow-up action.
- The emails should be checked to verify the complaints received by DP and action taken for resolving the complaints.
- The complaints received are registered / recorded in the BO grievances register and action taken by DP to resolve the grievances.
- The IA should verify the date of receipt and redressal as mentioned in the Investor Grievance Register, as per the emails received with documentary evidence to ensure that the DP has redressed the grievances within thirty days of its receipt.
- IA should verify as to whether **DP has informed the investors of the action taken to redress the grievances.**

d. **Grievance redressal mechanism is printed on the inside back cover of DIS issued by DP as per SEBI Circular (Comm. 3237)**

IA shall refer to the SEBI Circular CIR/MRD/DP/DA/ 25 /2012 dated September 21, 2012 (Communique 3237 dated September 24, 2012) wherein the information regarding grievance redressal mechanism to be printed on the inside back cover of the Delivery Instruction is specified as Annexure A (refer Operating Instructions Annexure 6.6)

e. DP displays information regarding Grievance Redressal Mechanism as per SEBI circular no. CIR/MIRSD/3/2014 dated August 28, 2014 at their offices.

IA shall refer to the SEBI Circular CIR/MIRSD/3/2014 dated August 28, 2014 (Communique 4675 dated September 2, 2014) wherein SEBI has directed that the Depository Participants should prominently display basic information, as provided in Annexure-A to the circular, about the grievance redressal mechanism available to investors.

f. The DP has informed CDSL about all grievances received from the BOs irrespective of whether such complaints are received by them directly from the BO or through CDSL or

through Scores.

g. The DP informs the investors of the action taken to redress the grievances.

h. DP has provided a link to SCORES portal, within the demat account dashboard of clients to make it easier to lodge grievances (Refer Communique no. 2018-132) and display the information on their website. (Refer Communique No. 2019-332)

i. DP has published investor charter on his website in accordance with CDSL Communique no. CDSL/OPS/DP/POLCY/2021/589 dated December 25, 2021

IA shall refer to SEBI vide their letter no. SEBI/HO/MIRSD/DOP/OW/P/2021/37347/1 dated December 15, 2021, wherein SEBI has advised the Depository and Depository Participants (DPs) to bring the Investor Charter [refer Annexure A] and its linked contents [refer Annexure B], to the notice of their clients (existing as well as new clients) through disclosing the Investor Charter on their respective websites. Also, to make the investor charter available at prominent places in their office, provide a copy of Investor Charter as a part of account opening kit to the clients, through e-mails/letters etc.

j.DP is complying with the following requirements w.r.t. Investor Grievances Escalation Matrix displayed on their website as per CDSL Comm. CDSL/IG/DP/2022/653 dated November 10, 2022:

- Contact numbers mentioned in Escalation Matrix are not same for more than one or for all escalated levels.
- Contact numbers are in use and are reachable during working hours.
- IVRS allows the caller to reach the desired escalated level and call is being handled by the escalated person.

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

5.13 a. Whether concurrent audit report is being submitted by the concurrent auditor on monthly basis by 10th of the next month?

b. In case of any major negative observation whether the same was informed to CDSL?) (Refer Communique 253 dated June 7,2021)

Verification Methodology:

Re. (a) Whether concurrent audit report is being submitted by the concurrent auditor on monthly basis by 10th of the next month?

CDSL has made it mandatory for the DPs to have Concurrent audit for certain risk prone areas as referred in Communique 253 dated June 7, 2021. The Concurrent auditors should conduct the verification of account opening, issue and execution of DIS and dispatch of transaction statement to BO on concurrent basis and submit the report to the DP on monthly basis by the 10th of succeeding month. Revised checklist is issued (Refer Communique 253 dated June 7,2021

The concurrent auditors should verify the status of KYC records of BOs sent to KRA to avoid the non-compliances in this area being pointed out during the annual inspection conducted by CDSL.

For verifying this, the IA should review the monthly concurrent audit reports maintained to ensure that reports are submitted as per the time line prescribed by CDSL.

Re. (b) In case of any major negative observation whether the same was informed to CDSL? (Refer Communique 253 dated June 7,2021).

if the Concurrent auditor finds any serious non-compliance by DP during the course of audit, such observation should be immediately informed to CDSL by the DP.

The IA should review the Concurrent Audit Report to check whether there was any serious non-compliance observed by the Concurrent auditors. The IA can check the correspondence file to see whether in case of any major observation, the same is duly reported to CDSL.

Following is a list of instances, which can be considered as a major observation reportable to CDSL:

- Procedural lapse of repetitive nature continued for more than two consecutive audit periods.
- Any non-compliance for which severe financial penalties are levied by CDSL.
- Absence of any mechanism to check genuineness of the accounts, if more than 20 accounts opened with same name/ address/ bank details (Communiqué 632 and 3353).
- Absence of inventory control mechanism of blank instruction slip booklets

- Absence of system for blocking the transactions which are already used/ misplaced.
- Absence of system at the DP to double-check the transactions originating from dormant accounts.
- Absence of system at the DP to double-check the transaction of value exceeding Rupees Five lakhs.
- Instructions executed without authorization from the BO
- Transaction statements not being sent as per prescribed procedures.

It may be noted that DP can file one combined report on internal audit and concurrent audit as per communique 236 dated May 25,2021,. Further, CDSL has developed a facility for online submission of IAR and CAR from half year ended 31st March, 2017. The submission of IAR and CAR should be online as per the procedure prescribed in the Communique CDSL/A,I&C/DP/POLCY/2017/215 dated April 28, 2017. Physically submitted IAR and CAR report will not be accepted and considered as non-submission. **& as per Operating Instructions Annexure 17.2.**

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

5.14 a. Whether Compliance Officer appointed by the DPs for the main office and at their live connected branch is employee of the DP?
b. Whether details of the compliance officer/authorized signatories/office address and change if any is informed by the DP to CDSL in the prescribed format? (as per Operating Instructions Annexure 17.2)

Verification Methodology:
Re.: (a) Compliance Officer as an employee of the DP:
As a Compliance Officer performs vital functions in a DP, it is very important that such job is not delegated to an officer outside the organization. CDSL has vide Communiqué 575 stated that the Compliance Officer appointed by the DPs for the Main DP and at their live connected branch be an employee of the DP. The format for submission of details of change in compliance officer is required to be reported to CDSL as per communiqué 1003.

DP can appoint alternate Compliance officer and request CDSL to capture the details of alternate compliance officer in CDAS by sending required details as per the format

The IA can ensure whether the Compliance Officer so appointed is an employee of the DP by verifying the appointment letter and duties, powers and responsibilities of such Compliance Officer.

Re.: (b) Intimation of details and change in Compliance Officer to CDSL:

If there is any such change in the details of the Compliance officer then the same should be intimated to CDSL in the format as prescribed as per Operating Instructions Annexure 17.2.

The IA needs to confirm from the DP about any change w.r.t. to the Compliance Officer. The IA may also scan through the past Internal Audit Reports and the Inspection Reports to confirm about the change in the post of Compliance Officer.

The IA should get the latest correspondence done with CDSL about intimation of details of Compliance Officer and check whether the same is officer is performing the job at the time of inspection.

In case of any change, it should be ensured that the same is intimated to CDSL in the format as prescribed by CDSL.

Any non-compliance emerging out of verification needs to be brought out in the inspection report.

5.15 Whether DP follows maker-checker concept in all of its activities to ensure the accuracy of the data and as a mechanism to check unauthorized transaction?

As per code of conduct, DP should follow maker-checker concept in all of its activities to ensure the accuracy of the data and as a mechanism to check unauthorized transaction.

IA should check whether DP follows maker-checker concept in all of its activities. The said concept can be implemented by the DP through back office software in the areas as mentioned in CDSL communiqué 1577 dated. 13.05.2009 IA should check the same to verify the compliance requirement.

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

5.16 Whether DP operations are carried out after following all communiqués issued by CDSL.

IA should while carrying out inspection of DP check whether DP follows various procedures prescribed under DP operating instructions and various communiqués issued from time to time by CDSL. In case of any deviation, IA should point out in the inspection report the areas in which DP is not following the same and updation of various developments are not updated to the staff operating the CDAS.

5.17 DP conducts regular in-house training programme of DP staff on various PMLA/SEBI Compliance requirements/guidelines and communiques issued by CDSL(Communique no. 5205 dated May 20, 2015).

DPs were vide Communique 5205 dated May 20, 2015 advised to regularly provide training internally and update the staff on various guidelines issued by SEBI with regard to various DP related activities with special focus on providing better services to the clients/BOs and reducing the number of avoidable complaints. Refer SEBI Circular no. SEBI/HO/MIRSD/DOS3/CIR/P/2018/14 dated July 04, 2018 regarding Guidelines on Anti-Money Laundering (AML) Standards and Combating the Financing Terrorism (CFT)
IA should while carrying out inspection of DP check as to whether DP is complying with the requirement and record of such training programme held has been maintained.

5.18 DP has updated the ticker message on their website for SMS, KYC & ASBA as stated in communique no. 4671, 4677 & 5547.IA should while carrying out inspection of DP check whether the DP has displayed on its own website (in case the DP is having its own website) text as static or in the form of ticker following messages:
Communique 4671:
1. "Prevent Unauthorized Transactions in your demat account --> Update your Mobile Number with your Depository Participant. Receive alerts on your Registered Mobile for all debit and other important transactions in your demat account directly from CDSL on the same day.....issued in the interest of investors."

Communique 4677:

2. "KYC is one time exercise while dealing in securities markets - once KYC is done through a SEBI registered intermediary (broker, DP, Mutual Fund etc.), you need not undergo the same process again when you approach another intermediary."

Communique 5547:

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

5.19 The information provided by the DP in Risk Assessment Template has been verified and found to be factual.

IA should while carrying out inspection of DP check in R.A.I.D. inquiry in webCDAS as to whether the DP has provided factual information in the Risk Assessment Template.

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Module VI – Branches (Branch DP) / Back Office Connected Branches

Preamble:

The evolving nature of capital market, competitive scenario and need for increasing geographical reach to capture the vast growing clientele made it almost compulsory for the DPs to open new branches.

These branches may either be linked to the main DP through the back office software or may be through CDAS. In either case, the main DP assumes the responsibility for the activities of its branches.

CDSL has prescribed various procedures and checks to ensure that the main DP controls the activities of its branches so as to provide the beneficial owners with proper services and to guarantee investor safety.

Part 1 - Methodology

6.01 Whether the scope of activity of the branches is clearly documented and adhered to?

Verification Methodology:

As large number of branches are opened which are scattered all over the country, with the objective of increasing the client base, it is very necessary to define the exact scope of activities to be performed at such locations along with the responsibility set on the branch heads. Keeping this in mind, CDSL has advised the DPs to document the scope of its branches and incorporate various controls to ensure smooth working of such scope of activities.

a. Documentation of scope of activity:

To ensure performance of the assigned work, proper utilization of the granted authority and to fix responsibility, it is essential to document the authority and the duties of the branch in an unambiguous term. Also, the Main DP is responsible for what its branches do or fail to do, as well as for the resources under their control. Thus, looking at these scenarios it is advisable for every DP to formulate a clear scope of activities to be performed by its branches. Such scope may contain the following particulars:

- Organization Chart showing managerial hierarchy,
- Name of Branch Head,

- Activities delegated to such branches,
- Process Owner/ Responsibility Manager for the activity,
- Job profile i.e. rights, duties and responsibilities of the senior branch officials
- Frequency of performing such activities along with the time schedule and other deadlines,
- Process flow of the activities,
- Procedure for communicating with the main DP and Reporting line,
- Various Checklists as required to be followed in performing the delegated tasks,
- Other critical areas.

At this juncture, it is also pertinent to note that, in view of the unique work environment and peculiarities of various DP operations, CDSL has given the discretion to the Main DPs to determine the scope of activity of its branches.

The IA should obtain the Scope of Activities as formulated by the main DP and verify whether such scope has been communicated to the branches. The IA is expected to comment upon coverage of scope w.r.t. aforesaid details considering the volume and clientele base of the DP.

b. Adherence of the scope:

Though devising the scope of branches is necessary, ensuring adherence to such scope is the most important to achieve the objective of controlling the activities of branches.
In this regard, the IA should obtain the scope so documented to see the particulars of activities assigned to branches and check whether branches perform the activities as envisaged in the scope set out by Main DP.

One of the most important areas which the IA should check is whether each branch is given access to the database which is related only to that particular branch. For this purpose, IA should verify the access rights defined in the BOS for every branch.

IA should also further verify whether the access allowed to various modules in the back office software, for each branch, is commensurate with the activities assigned to them.

e.g.: If the execution of pledge is centralized at the Main DP, the IA should ensure that none of branch is given access to ‘pledge module’ in the back-office software or if checker entry is at

the Main DP, the branch is given only maker rights in the back office software.

The IA should check whether the main DP has incorporated necessary control process to ensure adherence by the branches of the delegated scope. Some of the controls which the main DP may pursue are:

- Daily reporting by the branch to the main DP,
- Control / Exception Reports generated, if any.
- Carrying reconciliations of activities at the branches and submission to main DP as per pre defined time schedule w.r.t. Account opening, DRFs etc.
- Periodical Inspections of the branches by the DP Officials,
- Periodical calling the Branch Heads for discussion or meetings regarding issues arising out of DP operations.

Any adverse observation w.r.t. coverage, non-adherence to the scope etc. needs to be brought out in the inspection report along with the necessary details.

6.02 Whether Reconciliation between the branches / service centres and Main DP takes place for the purpose of maintenance of account opening form, Demat request, instruction slips and blank instruction booklets issued by and / or received from the branch?

Verification Methodology:

The IA should ensure that there is a structured system in place for flow of information and documents between the Main DP and branches. Branches should have a system of informing the Main DP about the details and number of documents sent by them to the Main DP.
This information can be provided in any of the following manners:

- Covering sheet with details of documents.
- Daily MIS report through e-mail stating area wise break up of documents sent.

The back office connected branch needs to send the daily MIS report to Main DP stating the number of accounts opened; DRFs received, uploaded in back office and rejected; DIS executed and other daily operation carried at back office connected branches. On the basis of daily MIS report sent by back office connected branch, the Main DP must cross verify the same with the details available to it from back office software.

In order to verify this, IA on random basis should verify the reconciliation records maintained by main DP during inspection period. IA, on real time basis, can also check the reconciliation procedure followed by Main DP and discuss with the DP official the action taken in case of any discrepancies observed during such reconciliation.

In case if some of the activities like executing Pledge, Unpledge, Confiscation, Freeze/ Unfreeze etc. are carried only through Main DP and the documentation for the same are kept at Main DP, the back office connected branches need to have a proper system for sending the documents to Main DP. The IA should verify whether the branches have a system of sending a covering sheet along with the documents received by the branch at the time of dispatching the same to main DP. The IA should verify on real time basis as well as on random basis for inspection period whether the main DP has a system of reconciling the data mentioned on the cover sheets with the details mentioned in MIS reports.

IA should mention the reconciliation procedure followed by main DP along with the adverse observation, if any, in the inspection report.

6.03 DP does addition / termination or modification in existing details of service centre through its easiest login. (Refer Communique 6272)

Verification Methodology:

ng the DP services from a service centre, the DP should make alternative arrangements to provide service to the BOs, who are availing of depository services through the said service centre. CDSL has released a new facility in ‘easiest’ whereby DPs through their easiest login can add new service centres; modify existing details or delete the existing service centre records (Refer Communique 6272 dated December 2, 2016.). DPs should intimate the list of drop box centres to CDSL-DP Admission team. However, approval from CDSL would not be provided for drop box centres.

The Main DP shall ensure comprehensive takeover and maintain the records of terminated service centre. The Main DP shall be responsible for all acts of omission and commission of all its branches including service centres.

The IA can get the list of branches at the beginning of the inspection period and at the end of the inspection period, generated from the back office system, to check whether any branch operations have been discontinued by the Main DP. Apart from this, the IA should also confirm from the DP whether any services of the branch have been terminated by the Main DP. The IA can also verify the CDSL Correspondence file maintained by the DP which records all the communication from/ to DP.

In case of termination of the branch service, the IA should check whether the DP has communicated to CDSL about its desire to close the branch. The IA should also check whether DP has received permission from CDSL for closure of branch.

6.04 Whether the branch of the DP displays the name of the Main DP prominently?

Verification Methodology:

CDSL vide Communiqué 75A dated 22.01.2001 has directed all the branches of the DP to display the name of the Main DP.

Accordingly, the IA should confirm from the DP Official whether the same is complied with. The IA should check whether the main DP has displayed such name in its place.

6.05 The franchisee is carrying out functions, which are in contravention to CDSL guidelines.

6.06 The Main DP has given only maker rights to the (franchisee) in respect of verification of delivery instruction slips and restricted the checker entry rights/execution of DIS to itself.

6.08 Franchisee which is the service centre of the DP is duly registered with regulatory authority such as a recognized stock exchange, SEBI, RBI or IRDA.

IA should check as to whether:

1. Franchisees appointed by the DP is duly registered (with a valid registration certificate on the date of appointment), with a regulatory authority such as a recognized stock exchange, SEBI, RBI or IRDA.

2. DPs has signed an agreement with the franchisee, covering services that can be offered by the franchisee. Such agreement should be made available to the inspecting officer at Main DP and Service Centre.
3. Franchisee has only checker rights in case of execution of DIS / Transactions.

6.07 The details of service centre with DP matches with the details of service centre displayed on CDSL website.

IA should check as to whether the details of service centre with DP matches with the details of service centre displayed on CDSL website.

6.09 There is control co-ordination and supervisory set up for reporting events that have occurred at back office connected branches that require management intervention.

6.10 Branches / back office connected branches are provided with the relevant and critical information / circulars like securities admitted to Depository, Bye Laws, Operating Instruction for Depository Participant, format / stationery, methods of feedback to clients, viz. Demat rejection, failure of delivery out, credits received, etc.

IA should check as to whether:

1. There is control co-ordination and supervisory set up for reporting events that have occurred at back office connected branches that require management intervention.
2. Branches / back office connected branches are provided with the relevant and critical information / circulars like securities admitted to Depository, Bye Laws, Operating Instruction for Depository Participant, format / stationery, methods of feedback to clients, viz. Demat rejection, failure of delivery out, credits received, etc.

Module VII - Back Office Software (BOS)

Preamble:

CDSL has advised the DP to follow certain procedures for their DP operations from the perspective of risk containment measure.

This mainly includes -

- Verification of all the transactions before they are released for execution,
- Record to be maintained for the DIS issued,
- Additional verification by senior official for all the transactions above five lakhs, etc.

For large number of clients, it is very difficult for DPs to comply with the above requirements manually. With a view to comply with the above requirements and to have proper controls on day to day DP operations, CDSL vide its Communiqué 773,1577&1904 has made it mandatory for all the DPs to have a BOS as a risk containment measure and to increase the efficiency.

CDSL has insisted on the following attributes which should be available in the BOS used by the DP vide Communiqué 773&1577:

- Maker–Checker facility for all transactions entered. This would include account opening, demat and all other transactions.
- Maintaining proper record of instruction slips. This would include the following:
    - Inventory control of printed instruction slip books along with record of pre-printed instruction serial numbers received.
    - Recording issue of instruction slip serial numbers to BOs.
    - On receipt of duly executed instruction slips from the BOs, verifying whether the instructions slip is out of the booklet previously issued to him.
    - System to check whether the instruction slip serial number has been used earlier.
    - The facility to record or cancel slips/slip books reported lost/returned by the BOs.
- In case the value of transactions in a slip exceeds Rs.5 lakhs, the BOS should have an additional facility of verification by a senior officer, after the checker has approved the same.
- Signature capture of BO and retrieval for the purpose of verification at the time of entry of instructions.

Part 1 - Methodology

7.01 Whether the details of statement of transactions generated from back office match with the statement or report generated from CDAS?

Verification Methodology:

Re.: (a) Generation of details from BOS:

As per CDSL Bye laws 5.3.3 and 5.4.5, no DP shall execute any transaction without receiving any appropriate instruction from the BO or CDSL and act only on receipt of instructions either from the BO or his duly authorized person. Thus, it becomes imperative to inform the Clients about the transactions so executed on his behalf on regular intervals.

Also, according to the Communiqué 538, a DP is required to send transaction statement at least at the end of every month if there has been a single transaction during the month and where no transaction happened in the account during the quarter, in all such cases transaction statements needs to be sent to the BO at the end of each quarter.

The documents which are normally dispatched to the BO are:

- Client Master Report;
- Statement of Transaction.

The DP is at discretion to generate the above documents either from CDAS or from the BOS. The IA has to confirm from the DP official whether the Statement of Transaction or Client Master Report is sent to the BO after generating it from BOS.

Re.: (b) Verification of details from CDAS and BOS:

It becomes of utmost importance to ensure that whatever details are given to the BO is correct and genuine. There can be risk of communicating wrong information to BOs, if such details are not generated from CDAS. Thus, the IA has to examine the process of generation of details and ensuring of correctness of such details followed by DP before dispatching it to the BO.

In case the reports are generated from BOS, IA needs to verify whether DP has set up a procedure to update the BOS regularly with the transactions which are not routed through BOS i.e. directly entered in CDAS. For this, IA may verify the log maintained by DP to confirm the frequency at which BOS is updated.

The IA can check on random basis for few clients (around 10 clients) the details of Statement of Transactions as generated from BOS details of those generated from CDAS. For this, the IA may generate the transaction statement from CDAS and BOS.

Following points should be considered while comparing the Statement of Transactions generated from CDAS and BOS:

- Whether the Transaction Statement contains all the details of the Clients like Name, Status, etc. as per CDAS generated Transaction Statement.
- Whether all the transactions so reflected in CDAS generated statement are present in the BOS generated statement.
- In case of Corporate Actions, the same is reflected in the BOS generated statement as that generated from CDAS.
- In case of IPO cases, the credit is reflected in both the statement of transactions.

It would be advisable for the IA to select bigger clients who have reasonable volume of business so as to cover maximum possibilities of transactions. The IA should take care that for the purpose of comparison, the statement should not be generated including the system date (i.e. the date of inspection), as the update in back office may not be on on-line basis.

If any discrepancy is found then the same must be mentioned in the Inspection report along with the details of such mismatches.

7.02 **(a) Whether Back office software has been installed in Main DP /Live connected branch DP (Refer** Communiqué **1577 & 1904 dtd.13.05.2009 and 25.02.2010 respectively)?**
(b) Whether the back office is updated regularly for the transactions done on the CDAS?
(c)DP Back office software has minimum risk containment measures as prescribed in communique 1577 and O.I. 6.5.4.2
(d) The back up of data residing in back office (or any data maintained in electronic form) with respect to depository operations is taken daily.
(e) The proper mechanism exists to ensure integrity of files from back office before they are uploaded from DP terminal

Verification Methodology:

Installation of BOS made compulsory to all DPs from December 2009 (Communiqué 1577 13.05.2009). It has been further clarified in communiqué 1904 that even the DPs having less than 500 demat accounts should also install the BOS. All the DP operations should be routed through BOS. Back office should have minimum risk containment features and settlement pocket compliant as per communiqué 773, 1577 & 1904.

During day to day operations, DP may execute transactions directly on CDAS namely set up of freeze, unfreeze, pledge request, etc. It is important for the DP to update such transactions on the BOS to be in line with CDAS for accurate generation of bills, knowing the updated status of the clients at the back office connected branches, etc.

The IA can check the schedule given to the personnel of the DP allocated with such task of updation to ensure whether the DP has a system of timely updation of the BOS. Besides this, the IA can check the BOS log generated by the BOS to ensure whether the updation is as per the schedule.

If there is no such systemic log maintained, IA needs to check the physical record of date and time of uploads and signature of person uploading the data in BOS, if any, maintained by DP. If any discrepancy is found then the same must be mentioned in the Inspection report along with the details.

Module VIII - Records and Documents to Be 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.

Communiqué 2020-389 dated September 10, 2020 and SEBI Circular SEBI/HO/MRD2/DDAP/CIR/P/2020/153 dated August 18, 2020 requires Depositories and Depository Participants are required to preserve the records and documents for a minimum period of 8 years.

These records need to be maintained by the DP in a manner which would facilitate their easy retrieval. The IA may ensure that the DP 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 DRN (unique reference number) generated from CDAS
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 DP 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 DP for maintenance of records and documents.

Part 1 - Methodology

8.01.a Whether account opening forms and supporting documents of all are being kept in a manner so that they can be retrieved at any time.

Verification Methodology:

The IA may refer to CDSL Operating Instruction 2.10 which states the records to be maintained by the DP related to account opening process.

Accordingly, a DP is required to preserve documents such as:

- Electronic records of KYC Application form
- Additional KYC forms for opening a demat account
- Agreement or acknowledgement of Rights and Obligations document, as applicable
- Account Opening Form,
- DP- BO Rights and Obligations,
- Power of Attorney Documents,
- Power of Attorney register
- Nomination Form,
- Supporting documents furnished with Account Opening Form,
- Nomination Register ,
- Account Modification Forms and other documents submitted with it.(CDSL Operating Instruction 3.6.1)
- Copies of letters sent to BO (hard or soft copy) confirming the modification done along with Proof of dispatch of such letters.

As per CDSL Operating Instruction 2.10.2 states that the DP should preserve the documents till the time the account is active and subsequently for minimum period of 8 years after the account is closed.

In this regard the IA should verify whether the DP files the AOF of client together with the related documents. This can be verified by the IA at the time of inspecting documents for verification of compliance to KYC norms.

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

b. Register of documents received and sent for dematerialization:

CDSL Operating Instruction 4.10 enlists the following documents pertaining to dematerialization which the DP is required to maintain:

- Copy of DRF received from clients.
- Record of DRF sent to Issuer/ RTA.
- Record of Demat rejections.
- Dispatch details of documents sent to BO on rejection from RTA.
- Record of follow up sent to RTA for pending demats.

The IA should verify whether proper records are being maintained by the DP at the inward counter at the time of receiving DRFs.

If the DP is unable to provide the IA with necessary documents for the purpose of verification of dematerialization activity, the IA may report the same as an observation w.r.t record maintenance by DP.

c. Instruction slips duly signed by BOs for off-market, settlement, pledge, inter depository transfers and account closure etc. are being kept in a manner so that they can be retrieved at any time.

During the verification of DIS executed by DP, IA should check that the DP maintains a date wise filing of DIS executed and also ensure that the files are both sequentially numbered and labeled with the date of execution of DIS.

CDSL Operating Instruction 8.8.1 provides that the DP is required to maintain a copy of Pledge Request Forms (PRF), Unpledge Request Forms (URF) , Margin Pledge Request Form [MPRF] , Margin Unpledge Request Form [MURF] , Invocation Request Forms (IRF) and Margin Pledge Invocation Form (MPIF) and Combined Form. The IA should ensure that the DP has a proper system of filing the PRF/ URF/ MPRF / MURF/ IRF/ MPIF and combined

form on basis of date of execution of instruction or any other appropriate basis which would facilitate easy recovery of documents.

CDSL Operating Instruction 10.9 provides for list of documents in respect of Account closures which the DP is required to maintain. To ensure compliance to the same the IA should verify whether the DP has maintained following documents w.r.t. ACF:

- The request letters and ACF for all account closures initiated by BO.
- A copy of notice of closure sent to BO for accounts closures initiated by DP. The DP should also maintain a proof of dispatch for the same along with the copy of notice.
- A copy of order of court or statutory authority for closures initiated by CDSL.

d. Records for transaction statements provided to BO, giving details such as account number, date of dispatch, period for which the statement was dispatched etc.

Communiqué no 530 sets the obligation on part of Main DP to print the statement of transaction for all the BOs including the BO of its branches and dispatch the same to BO and not to branches.

Also Regulation 49 (1) (c) of SEBI (Depositories and Participants) Regulation, 1996 states that the DP should maintain the records of statement of transaction provided to BOs.

The IA needs to verify whether the DP has maintained the record of transaction statements provided to BO as per the aforesaid regulation giving details such as BO ID, period for which the statement was dispatched, date of dispatch etc. DP may maintain such records either in soft form or physical register.

e. Investor Grievance Register is maintained

The IA must verify whether the DP maintains an Investor Grievance Register with details like:

- Date of receipt of complaint,
- BO ID,
- Inward Reference Number as given to the Complaint so received,
- Subject matter of complaint,
- Date of redressing of grievance and
- Communication Reference Number with CDSL if any regarding the grievance.

- Manner of redressal etc.

It is necessary that all the complaints and grievances received either through letters, emails, etc are properly mapped in the register by allotting an inward number to the complaint/grievance so received and recording the same in the Investor Grievance Register.

IA may also check whether the custody of grievance register is with senior official or compliance officer of DP

f. Power of Attorney register is maintained as per operating instructions 3.4.4.1.

CDSL Operating Instruction **3.4.4.1 requires** the DP to maintain a register for POA setup with various details as given in "**Chapter E - Question 1.3**". CDSL Communiqué 284 also requires a separate register to be maintained containing the details of BOs from whom the POAs are received in the favor of DP.

Accordingly, the IA should check whether such kinds of records are maintained by the DP with all the prescribed details.

g. DIS Issue Register is maintained

CDSL Operating Instruction 6.8.3 requires DP to maintain register to record the serial number of the instructions slips issued to the BO. For details refer **Question 2.5 (b) of Chapter C.**

IA should verify that the DIS issue register is updated on daily basis and signed by concerned official.

h. Nomination Register is maintained as per operating instructions 3.4.2.1.

The IA should check whether the DP has maintained a register of nomination and the same is duly updated with details as mentioned in operating instruction 3.4.2.1.

IA should verify that the Nomination register is updated on daily basis and signed by concerned official. (Refer communiqué 1424 dated 16.01.2009)

i. DP has informed their BOs regarding sending of consolidated account statement by Depository as per communique no 4816 and 4900

IA shall refer to the SEBI Circular no. CIR/MRD/DP/31/2014 dated November 12, 2014 (Communique 4816 dated **November 14, 2014**) and Communique 4900 dated December 26, 2014

IA should check as to whether the DP has informed its BOs regarding facility of CAS and also inform them that in case they do not desire to receive CAS then they can opt out of the facility

by submitting a request letter to the DP duly signed by all the holders stating that they do no wish to receive CAS.

8.02 Whether records are kept separately for each depository?

Verification Methodology:

Regulation 51 of SEBI (Depositories and Participant) Regulation 1996 states that if the DP has entered into agreement with both NSDL and CDSL then it should maintain separate records in respect of each of the depositories.

Generally, DPs maintain separate BOS for each depository operations. However, IA has to verify whether the DP maintains a separate record in the BOS and also in physical form.

The IA should also ensure from the records made available to him for verification that the physical records like investor grievance register, register for details of dematerialization, Filing of DIS executed, Filing of DIS requisition slips, Record of account opening, account modification, closure requests, communications with respective depository, and other operations related to DP activities are maintained separately for both the depositories.

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

8.03 Whether there is a system to maintain all the documents and records satisfactorily for minimum period of 8 years.?

(As per Communiqué 4309).

Verification Methodology:

As per SEBI (Depositories And Participants) Regulations, 2018 dated 3rd October, 2018 every DP is required to maintain all records and written communication from BO for a minimum period of 8 years from the date of cessation of transaction with the client.

In this regard, IA should verify arrangements made by DP for storage of such documents. CDSL vide its Communiqué No. 526 advised DPs to furnish the details of all such locations where records are stored and type of documents stored at each such locations to CDSL in a soft copy on the email address audit@cdslindia.com. IA may also check whether such details have been communicated to the CDSL.

The IA should verify whether the DP 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 8 years or since the inception of DP 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.

8.04 The DP has outsourced activities which are permissible as per SEBI circular no. CIR/MIRD/24/2011 dated 15.12.2011. (Refer comm. 2775).

8.05 The DP has outsourced any core activities and has obtained approval from CDSL.

8.06 DP has outsourced the activities which are not in the nature of core business activities and compliance functions and DP has on record comprehensive policy as per SEBI circular no. CIR/MIRSD/24/2011 dated 15.12.2011 (Refer Comm. 2775)

IA shall refer to the SEBI Circular no. CIR/MIRSD/24/2011 dated December 15, 2011 (Communique 2775 dated **December 27, 2011).**

IA should check as to whether the DP has outsourced permissible activities. If so, whether DP has obtained approval of CDSL for the same and comprehensive policy has been kept on record.

8.07 The DP has uploaded the tariff details and subsequent modification (if any) to CDSL website (as per SEBI circular no. MRD/Dep/Cir-20/06 dated December 11, 2006 regarding submission / dissemination of DP tariff/charges)

IA should check as to whether the DP has uploaded the tariff details and subsequent modification (if any) to CDSL website

8.08a Secrecy of passwords is maintained at all levels.

The DP should maintain secrecy of passwords at all levels

8.08b 'Variable access rights' scheme suggested by CDSL is implemented.

The DP should exercise sufficient controls in the internal working of their office to check that no unauthorized person is able to access a BO Account either for addition/modification/deletion or inquiry by implementation of variable access rights. .

8.08c The DP uses its éasiest'login for processing of instructions(s) at least once in a month.

Verification Methodology

IA should verify as to whether DP is using DP easiest login uploaded/entered instructions through their DP login in easiest at least once in a month.

8.08d Main DP is maintaining record of identification documents (including photo-identification) of the persons engaged in DP operations at its office, at live connected branches and at service centers? (Refer O.I.17.7)

IA should check as to whether DP has maintaining record of identification documents (including photo-identification) of the persons engaged in DP operations at its office, at live connected branches and at service centers.

8.08e The Anti Virus Software is upgraded regularly on weekly basis.

IA should check as to whether DP is upgrading anti-virus software regularly by verifying last date of upgradation.

8.09 The DP has framed and adopted a surveillance policy based on nature of its depository business, type of clients, number of demat accounts, number of transactions along with the indicative list of alerts etc., as per CDSL Communique no. CDSL/OPS/DP/SYSTM/2021/309 dated July 15, 2021.

8.10 The DP has proper system in place to generate the surveillance alerts as per the Board approved policy adopted by it.

8.11 The surveillance policy of the Participant has been approved by its Board of Directors. In case, the Participant is incorporated outside India, then the surveillance policy of the

Participant can be approved by a Committee constituted to oversee its Indian Operations.

8.12 The DP has reviewed its surveillance policy at least once in a year.

8.13 Quarterly MIS on the number of alerts generated and processed as prescribed in the CDSL Communique. No. CDSL/OPS/DP/SYSTM/2021/309 dated July 15, 2021, has been prepared and presented before the Board of Directors / Committee.

8.14 DP has submitted quarterly report (including nil report) on status of the alerts in the prescribed format (as per CDSL Comm. No. CDSL/OPS/DP/SYSTM/2021/309 dated July 15, 2021) to the depository within 15 days from end of the quarter.

8.15 DP has reported adverse observation/instances noticed by it and action taken thereof by DP, to depository within 7 days of the date of identification.

8.16 Alerts have been disposed within 30 days from the date of alerts generated at Participants end and alerts provided by depository.

8.17 Internal auditor has reviewed the surveillance policy, its implementation, effectiveness and review the alerts generated during the period of audit.

8.18 DP has put in place internal code of conduct, controls and checks and balances to prevent circulation of unauthenticated news by its employees (including temporary and voluntary) by various modes of communication in accordance with point no.2.3 of SEBI master circular no SEBI/HO/ISD/ISD-PoD-2/P/CIR/2022/118 dated September 13, 2022

IA to refer CDSL communique 309 dated July 15, 2021

Module IX - Other Areas

9.01 (a) Whether discrepancies and /or non-compliances observed during previous inspection and last two internal audit reports are rectified and /or complied with?
(b) The discrepancies and /or non-compliances observed during inspection conducted by SEBI or any other regulatory authorities are rectified and /or complied with.
(c) The concurrent audit of risk prone areas on 100% basis is being conducted by the auditor conducting internal audit in accordance with the guidelines specified by CDSL.
(d) The non-compliances observed in concurrent audit of risk prone areas have been rectified and checked by the auditors during the audit period.
Compliance Status of Observations arising in earlier Inspection and Internal Audit

Report:

It is very important to check whether the observations or discrepancies as pointed in the verification is duly addressed. This is essential to know the seriousness of the auditee to resolve the discrepancies and take appropriate steps to strengthen controls so as to avoid the repetition of such mistakes in future.

Any audit or inspection can be successful only when the auditee takes reasonable steps to improve its operations on the basis of the suggestions given.

In view of this, CDSL has incorporated verification of status of the observations arising from previous inspection or internal audits. The IA has to state the compliance status of observations arising from:

- Previous Inspection **and**
- Previous two half yearly Internal Audits

In regards to this, the IA should obtain following documents from the DP

- Reports from the DP for the above stated inspection and internal audit.

- Letter sent by CDSL pointing out the observation and asking DP to rectify the observations
- Compliance letter sent by DP

Following points may be considered by the IA while analyzing the previous inspection report and the two internal audit reports:

- Whether the observations raised by internal auditor or IA have been rectified by the DP and the same have been checked by Internal auditor. For this purpose, IA should check the internal audit reports to verify whether internal auditor has verified the corrective actions taken by the DP for the observations emerging from previous internal audit reports or inspection reports.

- In case if the observations pointed out by the earlier verifying authority have not been rectified or no management response is given about the status of the observations, the IA is expected to check whether the observations have been rectified during the course of the inspection of the DP.
- In case of any procedural lapse pointed out by the earlier IA or Internal Auditor, the IA should ensure whether such procedural lapses have been properly mitigated by deploying appropriate controls.

- If it is observed that the DP had submitted wrong compliance to CDSL, the same should specifically be stated along with the details.

- In case all observations of such earlier inspection and two previous internal audits have been complied with, the auditor should specifically mention the same.

The compliances advised by the DPs for the previous inspection period and last two half yearly internal audit reports should be checked by the IA to ascertain whether the DPs has rectified the instances and complied with the procedural requirements. In case of any adverse observation IA should observe in the inspection report as non-compliance.

IA is required to mention observation regarding discrepancies and /or non-compliances observed during inspection conducted by SEBI or any other regulatory authorities are rectified and /or complied with if any.

IA should check as to whether concurrent audit of risk prone areas on 100% basis is being conducted by the auditor conducting internal audit in accordance with the guidelines specified by CDSL and non-compliances observed in concurrent audit of risk prone areas have been rectified and checked by the auditors during the audit period.

9.02 The DP has implemented the procedures as confirmed in the previous compliance report for the last inspection and/ or internal audit report.

9.03 DP has placed last CDSL inspection report/Internal audit reports/concurrent audit reports along with action taken report before the Board of Directors

9.04 DP has placed last SEBI inspection report along with action taken report before the Board of Directors

9.05 The board of the DP was satisfied with the corrective actions taken.

IA should check as to whether the DP has placed last CDSL inspection, internal audit report and SEBI inspection report (if any) along with action taken report before the board of Directors by checking minutes of the board meeting. IA should also check minutes of the meeting to check as to whether the board of the DP was satisfied with the corrective actions taken

9.06 DP has uploaded separate mobile number and e-mail address for each client as per SEBI guidelines (Refer communique no 5139)

IA should check as to whether the DP has system in place to comply with SEBI directive of capturing separate mobile numbers and email address at the time of opening of demat accounts and/ or modification of mobile number or email.

A. Comment on the overall operations, controls and infrastructure available at the DP:

On the basis of the inspection carried out, it is expected from the IA to judge the following:

- Overall internal controls, risk management procedures incorporated by the DP;
- Whether the DP has adequately taken note of the CDSL Operating Instructions, Bye laws and other mandates;
- The infrastructure w.r.t staffs, availability of hardware and software to carry out

smooth operations.

The IA should consider the following parameters while commenting on the aforesaid criteria's:

- The nature of mistakes observed during inspection i.e. manual or systemic
- Procedural lapses observed during the inspection
- The repetition of observations from the earlier inspection and internal audits;
- Existence of control reports and other controls incorporated by the DP;
- Existence of escalation policy and nature of organization structure;
- Volume of operations and the expected increase in volume in near future;
- The availability of staff in lines with not only the existing volume but also the expected volume of operations.
- Availability of trained staff

B. DP organization structure and the internal reporting system:

IA should obtain the organization structure/chart indicating the internal reporting system of the DP and report under this point or affix it as an annexure to the report.

C. Other Areas:

IA should verify whether the DP has implemented ticker on their website as per CDSL communiqué CDSL/OPS/DP/P OLCY/5547 dated November 06, 2015

IA should verify that DP is providing ongoing training to staff on various SEBI Compliance requirements/guidelines and communiqués issued by CDSL

Module X – PMLA Guidelines

Preamble:

To combat money laundering and terrorist financing, The Prevention of Money Laundering Act, 2002 (PMLA) has been brought in to force with effect from 1st July, 2005. SEBI has vide Circular CIR/ISD/AML/3/2010 dated December 31, 2010 **and CIR/MIRSD/1/2014 dated March 12, 2014** laid down various guidelines for identifying and categorise the source of funds and allied activities which can endanger the security of our country. Compliance with the standards as prescribed under PMLA by all intermediaries and the country has become imperative for international financial relationships.

To be in conformity with PMLA, CDSL has issued a series of Communiqués to inform and assist its DP to comply with the said SEBI guidelines.

Verification Methodology:

10.1 **The DP has prepared a policy framework as per SEBI guidelines and is compliant with PMLA guidelines as per SEBI circular dated 31.12.2010 and copy is sent to FIU-IND.**

As per CDSL communiqués 673, 793 and 2236 dated March22, 2006, November 21,2006, January 06, 2011 and March 13, 2014 respectively, DPs have to ensure that a proper policy framework covering client identification programme, retention of records, monitoring, reporting of suspicious transactions (communiqué 4652) as per the Guidelines on anti-money laundering measures is put into place. DPs are required to send a copy of the Policy directly to FIU -IND New Delhi.

IA should check whether such policy has been prepared and a copy of policy has been directly sent to FIU- IND New Delhi.

To ensure that the registered intermediaries properly discharge their legal obligations, to report suspicious transactions to the authorities, the Principal Officer would act as a central reference point in facilitating onward reporting of suspicious transactions and for playing an active role in the identification and assessment of potentially suspicious transactions.

10.2 'Principle Officer' is appointed as required under the PMLA Act.

10.3 The DP has intimated the appointment / change of Principal officer to FIU - India and CDSL.

10.4 'Designated Director' is appointed as required under the PMLA Act.

10.5 The DP has intimated the appointment / change of Designated Director to FIU - India and CDSL.

SEBI vide Circular ISD/CIR/RR/AML/1/06 dated January 18, 2006 & CIR/ISD/AML/3/2010 dated December 31, 2010 and CIR/MIRSD/1/2014 dated March 12, 2014 directed all intermediaries to designate a Principal Officer and Designated Director who would be responsible for ensuring compliance of the provisions of the PMLA. Accordingly, CDSL has vide Communiqué 677 directed all its DPs to appoint a Principal Officer and intimate the details to the Financial Intelligence Unit – India (FIU- IND) immediately.

The IA should check following points while reviewing the appointment of Principal Officer:

- Whether DP has appointed a Principal Officer as required by SEBI Circular ISD/CIR/RR/AML/1/06 dated January 18, 2006 & CIR/ISD/AML/3/2010 dated December 31, 2010 and CIR/MIRSD/1/2014 dated March 12, 2014. IA should check the Appointment letter and the Job Profile to ensure :
- Whether the appointment is within the stipulated time,
- Whether the Officer is designated with duties and responsibilities as envisaged in clause 10 of Guidelines on Anti money laundering Standards.

- The DP has submitted a written intimation to FIU-IND of the fact of appointment of Principal Officer and Designated Director. In this regards, the IA should verify the acknowledgement as required to be maintained by the DP to check the date of intimation to FIU- IND and also to verify whether the following information has been duly communicated through intimation letter:
    - Name(s) of the Principal Officer and Designated Director appointed;
    - Designation;
    - Residential Addresses of such Principal Officer and Designated Director;
    - Email Address.

DPs are also required to keep FIU-IND informed about the name, address, email-ID and contact details of their Principal Officer and Designated Director.

10.6 DP has made available the PMLA policy to the persons engaged in the depository operations for compliance purpose.

10.7 DP has adequate screening procedure in place to ensure high standards when hiring employee.

10.8 DP has defined and adopted customer acceptance policy.

10.9 DP has undertaken Client Due diligence measures including requirements for proper identification before account opening and ensures that the identity of the clients does not match with any person having known criminal background or is not banned in any other manner, whether in terms of criminal or civil proceedings by any enforcement agency worldwide.

10.10. DP has categorized clients into low, medium and high risk based on perceived risk depending upon clients background, type of business activity, transactions etc

10.11. PMLA Policy contains defined parameters on Categorisation of clients into "Clients of Special Category (CSC) like politically exposed persons, NRIs, High net worth Individuals and clients with dubious reputations

10.12 DP has updated the income details in CDAS and Back office system.

10.13 DP checks and monitors the transactions / Value of securities in the demat accounts of the BO(s) based on income and occupation details as per PMLA guidelines and follows ongoing due diligence for ensuring effectiveness of the AML procedures

1014 PMLA policy has clause defining the periodicity of updating of documents taken during the client due diligence (CDD) process

10.15 Participant has a system in place for reporting of suspicious transactions to FIU - India, irrespective of the amount of transaction and/or the threshold limit envisaged for predicate offences.

10.16 DP has directly reported suspicious transaction to FIU IND within 7 days of detecting of the same.

10.17 The DP has informed to CDSL of the number of STRs filed by them directly with FIU-IND during a given month

10.18 DP has maintained register as prescribed by CDSL regarding the alerts being provided is maintained properly and actions taken are recorded as per

communiqué 762

10.19 The periodicity of review of policy is defined in the PMLA policy

10.20 The DP has done the periodic review of the PMLA Policy

10.21 Periodical Review of PMLA policy is done by any DP official other than the official who originally drafted the policy.

10.22 DP has updated and incorporated all the points as per guidelines of PMLA and SEBI Master Circular SEBI/ HO/MIRSD/DOP/CIR/P/2019/113 dated October 15, 2019 (Communique no. 2CDSL/OPS/DP/P OLCY/2019/542 dated October 25, 2019)**..**

10.23 Principal Officer as well as Designated Director of the DP are registered in new FINnet system. (IA to refer CDSL/OPS/DP/POLCY/2022/288 dated May 27, 2022)

10.24 There is a mechanism to deal appropriately with the fortnightly alerts provided by CDSL in accordance with CDSL communique CDSL/OPS/DP/762 dated October 06, 2006 and CDSL/OPS/DP/1448 dated January 29, 2009.

10.25 There is a mechanism to deal appropriately with the monthly alerts provided by CDSL in accordance with CDSL Comm. no. CDSL/PMLA/DP/POLCY/2022/701 dated December 09, 2022

IA should check whether

1. DP has made available the PMLA policy to the persons engaged in the depository operations for compliance purpose.
2. DP has provided appropriate training on PMLA & SEBI guidelines to its staff member
3. DP has adequate screening procedure in place to ensure high standards when hiring employee.
4. DP has defined and adopted customer acceptance policy.
5. DP has undertaken Client Due diligence measures including requirements for proper identification before account opening and ensures that the identity of the clients does not match with any person having known criminal background or is not banned in any other manner, whether in terms of criminal or civil proceedings by any enforcement agency worldwide.
6. DP has categorized clients into low, medium and high risk based on perceived risk depending upon clients background, type of business activity, transactions etc
7. PMLA Policy contains defined parameters on Categorisation of clients into "Clients of Special Category (CSC) like politically exposed persons, NRIs, High net worth Individuals and clients with dubious reputations
8. DP has updated the income details in CDAS and Back office system.

9. DP checks and monitors the transactions / Value of securities in the demat accounts of the BO(s) based on income and occupation details as per PMLA guidelines and follows ongoing due diligence for ensuring effectiveness of the AML procedures
10. PMLA policy has clause defining the periodicity of updating of documents taken during the client due diligence (CDD) process
11. Participant has a system in place for reporting of suspicious transactions to FIU - India, irrespective of the amount of transaction and/or the threshold limit envisaged for predicate offences.
12. DP has directly reported suspicious transaction to FIU IND within 7 days of detecting of the same.
13. The DP has informed to CDSL of the number of STRs filed by them directly with FIU-IND during a given month
14. DP has maintained register as prescribed by CDSL regarding the alerts being provided is maintained properly and actions taken are recorded as per communiqué 762
15. The periodicity of review of policy is defined in the PMLA policy
16. The DP has done the periodic review of the PMLA Policy
17. Periodical Review of PMLA policy is done by any DP official other than the official who originally drafted the policy
18. DP has updated and incorporated all the points as per guidelines of PMLA and SEBI Master Circular SEBI/ HO/MIRSD/DOP/CIR/P/2019/113 dated October 15, 2019 (Communique no. 2CDSL/OPS/DP/P OLCY/2019/542 dated October 25, 2019)..

The term “Suspicious Transactions” in this regards have been defined in **Prevention of Money Laundering Act (PMLA), 2002** as - a transaction whether or not in cash that gives rise to a reasonable ground of suspicion that it may involve proceeds of crimes or appears to be made in circumstances of unusual/ unjustified complexity or appears to have no economic rationale/ bona fide purpose.

Thus, onus is on DP to take following precautions to comply with the aforesaid circular:

- Appropriate Steps should be taken to recognize the suspicious transactions
- Appropriate procedure is followed for reporting such transactions to the Money

Laundering Control Officer or any other designated officer within the intermediary.

To assist its DPs in this regard, CDSL has evolved certain criteria for generating alerts for DPs

containing details of transactions that are potentially suspicious. CDSL will send alerts at fortnightly intervals (on every 15th and last day of the month) to DPs through Reports Module under the Module ID 70 and Report ID 'BLNG'. Such alerts may enable DPs to identify suspicious transactions.

As per CDSL Communiqué 762 dated 6th October 2006, DPs are required to maintain a Register where they should note the action taken on such report. The register should be maintained in the format as given in Annexure-C of the aforesaid Communiqué.

As per CDSL communiqué 988 dated 13th November 2007**,** DPs were advised to review the alerts. DPs have been further advised vide communiqué 1345 dated 6.11.2008 to review the alerts as per the revised parameters of alerts as given below. IA should check whether such procedure or system has been adopted by DPs to review the alerts and to identify suspicious transactions.

As advised by FIU-IND, DPs are required to review and enhance the scope/quality of alerts that are being sent every fortnight, to identify and report Suspicious Transactions. Suspicious Transactions so identified should be advised to FIU IND New Delhi within 7 days of detecting (Communiqué 4652). Also DP should report to CDSL within the 7 days of following month no. of suspicious transactions filed with FIU IND. DPs can submit the report to FIUIND in the format developed under the FINnet PROJECT as prescribed in the Communiqué 3252 dated September 29, 2012.

The following criteria are now finalized amongst the depositories for generating alerts:

1. Details of debit and credit transactions due to off-market or inter-depository transfers having value of Rs. "**y**" and above, in an account in an ISIN, in a single transaction or series of transactions executed during the fortnight.
2. Details of debit and credit transactions due to demat, remat and pledge involving "**x**" shares or more in an account, in an ISIN, in a single transaction or series of transactions executed during the fortnight.
3. Details of debit and credit transactions involving "**x**" shares or more or having value of Rs. "**y**" and above, whichever is smaller in an account, in an ISIN, which exceed "**n**" times the average size of the transaction calculated for the previous months' transactions.
4. Details of off-market transactions (within CDSL and Inter-depository) where there are more than "**x**" transactions in an account for the past fortnight.
5. Any debit transaction in a dormant account for more than "**x**" shares or more or Rs."**y**",

whichever is smaller, will be reported as an alert. An account having no "Debit Transaction" in the last "**n**" months will be considered as a "Dormant" account for this purpose.

DPs will be required to establish / identify suspicious transactions in the light of "Financial Status" of the client which is required to be captured on a case-to-case basis. For such transactions, DPs should submit the report directly to The Director, FIU-IND in the prescribed format, within seven working days of establishment of suspicion. For this purpose, DPs are advised to refer to CDSL communiqué no. CDSL/OPS/DP/673 dated March 22, 2006 enclosing therewith SEBI Circular no. ISD/CIR/RR/AML/2/06 dated March 20, 2006 and detailed operational guidelines and formats of reporting by market intermediaries as per the Prevention of Money Laundering Act, 2002. Attention of the DPs has been specially drawn to part 7 of the instructions (**Annexure-1 of** Communiqué **988**), where examples of suspicious transactions were given by FIU-IND for the guidance of the DPs. DPs will be required to upload Suspicious Transaction Reports (STRs) through FINnet gateway (communiqué no. 4652/5815)

IA should check following aspects while reviewing the Suspicious Transaction Register:

- Whether the register is in the format as prescribed by CDSL in the aforesaid Communiqué.
- Whether the register is complete in all respects and all the reports generated from CDAS are recorded in the register. The IA can verify this by checking the reports as required to be maintained by the DP with the corresponding entry in the register. (The first report was generated on 15th September 2006).
- In case if the "action taken" Column specifies, "No action required to be taken" or is blank, the reason for the same needs to be confirmed from the Principal Officer. The IA should analyze and discuss with this with DP official to judge the appropriateness of the remark.
- The IA should check whether each entry in the Register is authenticated by the Principal Officer
- The IA should also check that the Register is given proper heading, Page Number and maintained in a legible handwriting.
- The IA should also ensure whether the custody of such Register and the Suspicious Transaction Reports (communiqué 5156) is with a Senior Official preferably with

the Principal Officer.

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

Chapter XI – Designated Depository Participant

Preamble:

The SEBI (Foreign Portfolio Investors) Regulations, 2014 ("the Regulations") have been notified on January 07, 2014. (Refer Communique 4203 dated **January 24, 2014)**

Pursuant to the implementation of Foreign Portfolio Investor ("FPI") regime, SEBI approved Designated Depository Participants ("DDPs") would grant registration to FPIs on behalf of SEBI and also carry out other allied activities in compliance with Regulations and other guidelines, circulars, issued thereunder.

In consultation with various market participants SEBI has issued operational guidelines to facilitate registration of FPIs by DDPs on behalf of SEBI.

Verification Methodology:

11.1 DDP has opened the account of FPI only after granting registration to FPI

11.2DDP has granted conditional registration of 180 days to FPI only after following SEBI guidelines as per SEBI circular dated 8.01.2014

11.3 DDP has devised mechanism to ascertain that aggregate holdings of a FPI has not exceeded the stipulated limit

11.4 DDP has mechanism to check about any material change in the information provided by FPI to DDP and SEBI earlier in respect of direct/indirect change in control, change in regulatory status , merger/demerger or restructuring, change in category, change in structure etc. and it reassesses the eligibility of FPI after examining the same

11.5 DP has obtained necessary declarations & undertakings from the FPI/FPI investor group for investment limit of 10% to be maintained.

IA should verify as to whether:

1. DDP has opened the account of FPI only after granting registration to FPI
2. DDP has granted conditional registration of 180 days to FPI only after following SEBI guidelines as per SEBI circular dated 8.01.2014

3. DDP has devised mechanism to ascertain that aggregate holdings of a FPI has not exceeded the stipulated limit
4. DDP has mechanism to check about any material change in the information provided by FPI to DDP and SEBI earlier in respect of direct/indirect change in control, change in regulatory status , merger/demerger or restructuring, change in category, change in structure etc. and it reassesses the eligibility of FPI after examining the same
5. DP has obtained necessary declarations & undertakings from the FPI/FPI investor group for investment limit of 10% of the total paid up equity capital on a fully diluted basis of the company to be maintained.
6. The Designated Depository Participant shall carry out an annual review of its systems, procedures and controls by an independent professional. Explanation: The review shall cover the systems and procedures being followed by them to meet its obligations towards its clients, regulators and other relevant bodies and compliance with the requirements of the regulations and circulars issued by SEBI (Ref. SEBI – FPI Regulation 2019)

5– Drafting of Report

Preamble:

The Inspection Report should be drafted in a manner that it provides sufficient insight into the DP operations. As suggested in the Contents and Format of Inspection Report, 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. As suggested in the Contents and Format of Inspection Report, 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 of Manual Errors would constitute Low risk
4. The IA must review inspection report and audit report of the earlier period for any procedure lapses reported therein. The management comment given by the DP on same should also be studied to see whether the management has assured/reported compliance in respect of such lapses. In case of recurrence of such procedural lapse in the period under inspection the IA should highlight it in

the executive summary.

5. 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 Account Opening and Account Modification, Dematerialization, Instruction Slips, Account Closure, Branch Operations 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 DP and to judge the adequacy of the mechanism incorporated by the DP, the IA is expected not only to give his Comments in "YES/ NO" manner but also to state the process so followed by the DP along with the controls in it. **The IA should state the process even when the comment is in affirmative.**

  e.g.: In the clause where the CDSL has asked – Whether the DP has systems and procedures to double check transactions originating from dormant accounts as a risk containment measure?, the IA should understand and state the procedure and the systems implemented by the DP 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 DP 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 DP 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 DP for compliance with CDSL rules.

  e.g.: Is there a system in place to prevent the double execution of same instruction, in case fax instructions are accepted.

  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 DP and specifically bring out loopholes 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 DP 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 11 of CDSL operating instruction levies penalties on DP 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.

  The list of non-compliance for which penalty is levied by CDSL on per instance basis is attached as **Exhibit 2** to this Chapter.

- During inspection, if IA finds that DP has not followed any particular procedure or several instances of noncompliance are observed. For such instances, if CDSL has levied penalty on the basis of nomenclature of observation and not per instance basis, then in such case the IA can give a illustrative list of observations only.

  e.g.: In clause – "Whether transaction statements are sent at intervals as prescribed by CDSL by the Main DP to all BOs including BOs of all its branches?" the penalty levied is Rs. 2000/- for observation in this regards irrespective of the number of cases found. Thus, the IA can give an illustrative list for such observations.

- 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 DP. 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 DP.

- It is necessary that the report incorporates management responses, wherever provided by the DP, for each adverse comment given by the IA. The management comments may be included beneath the observation given by IA.

- IA should ensure that before finalization and sign off of inspection report, it should be thoroughly discussed with DP compliance officer/ officials. The inspection report also should be discussed with the internal/concurrent auditors of the DP and bring to the notice of the auditors the non-compliances observed in the inspection report so that such types of mistakes are not repeated in future.

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 in the ambit of checklist, then such observations or suggestions should be included by the IA in his report by giving proper heading.

Chapter 6 - 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 DP'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 checklist 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.

  e.g.: For observation of delay in dispatch of demat request within 7 days, the Annexure must contain details of BOID, DRN no, date of receipt of request,

date of dispatch, delay (in number of days).

- There are some non-compliances for which CDSL has prescribed per instance penalty which is subject to maximum cap of penalty points / amount. In such cases IA should give minimum of the following number of instances,
  a. Actual number of instances observed or,
  b. No. of instances which would accumulate the maximum slab prescribed by CDSL (as specified in **Exhibit 3**).

List of such non-compliances is attached as **Exhibit 3** to this Chapter.

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Exhibit 2

Instances where penalty is levied on per instance basis

Sr. No.	Nature of Non-compliance
1	BO Grievances (except disputes /court cases) not redressed within 30 days
2	Non-submission of monthly report of BOs' Complaints as required under Bye Law 5.3.5.4 (latest by 10th of the following month).
3	Erroneously uploading data files into CDSL system for processing of any type of transaction.
4	Any type of transaction not executed as prescribed by CDSL
5	Instruction of the client not executed or erroneously entered by DP
6	Registration of clients to easiest without obtaining registration forms
7	Registration of Trusted accounts at easiest without obtaining Letter in the given format from trusted account holders
8	Invalid/factually incorrect/meaningless data entered in demographic details
9	Fax indemnity not executed with the BOs for the instructions accepted on fax and/or original instruction not collected within the prescribed time limit as mentioned in O.I.

Exhibit 3

Monetary Penalty is levied on per instance basis in respect of following and there is no cap on maximum or minimum instances or amount to be imposed. Penalty is doubled in the following year if it is observed and thereafter in the third year it is referred to Disciplinary Action Committee (DAC). Accumulation of penalty of `50,000/- in the area in the year or imposed during the year will also be reported to DAC.

Sr. No.	Nature of Non-compliance
1	Account opened without obtaining adequate proof of identity or any other document prescribed by SEBI
2	Account opened without obtaining adequate proof of address or adequate proof of address not collected for change of address.
3	BO account debited without receiving proper authorization from BOs (unless authorized by CDSL)

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Chapter 7 – Abbreviations

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

Abbreviation	Full Form
ACF	Account Closure Form
AMF	Account Modification Form
AOF	Account Opening Form
BCCD	BSE's Certification on Central Depository
BO	Beneficial Owner
BOS	Back Office Software
CC	Collection Centre
CDAS	Central Depositories Access System
CDSL	Central Depositories Securities limited
CH	Clearing House
CM	Clearing Member
DIS	Delivery Instruction Slip
DP	Depository Participant
DRF	Demat Request Form
DRN	Demat Request Number
easi	Electronic Access to Securities Information
easiest	Electronic Access to Securities Information and Execution of Secured Transactions
EOD	End Of Day
FI	Financial Institution
FII	Foreign Institutional Investor
FIU-IND	Financial Intelligence Unit-India
HO	Head Office
HUF	Hindu Undivided Family
IA	Inspecting Authority

Abbreviation	Full Form
IPO	Initial Public Offering
IRF	Invocation Request Form
ISIN	International Securities Identification Number
KRA	KYC Registration Agency
KYC	Know Your Client
MICR	Magnetic Ink Character Recognition
MIS	Monthly Information System
NISM DOCE	National Institute of Securities Market Depository Operations Certificate Examination
NRI	Non-Resident Indian
OCB	Overseas Corporate Body
PAN	Permanent Account Number
PMLA	Prevention of Money Laundering Act
POA	Power Of Attorney
POD	Proof Of Delivery
PRF	Pledge Request Form
PSN	Pledge Setup Number
ROC	Registrar of Companies
RRF	Rematerialization Request Form
RTA	Registrar & Transfer Agent
SEBI	Securities Exchange Board of India
STR	Suspicious Transaction Report
TRF	Transmission Request Form
URF	Unpledge Request Form
URN	Unpledge Request Number

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