

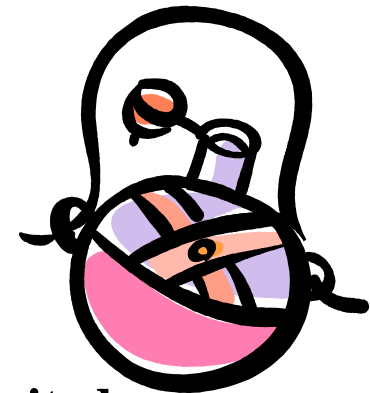
Compliance Framework for Depository Participants



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What's in store?

- 1. Legal frame work**
- 2. Reports / Documents to be submitted to CDSL**
- 3. New Developments in Compliance Areas**
- 4. Commonly observed discrepancies/deviations in Audit/Inspection.**
- 5. Non-compliances & Penalty**



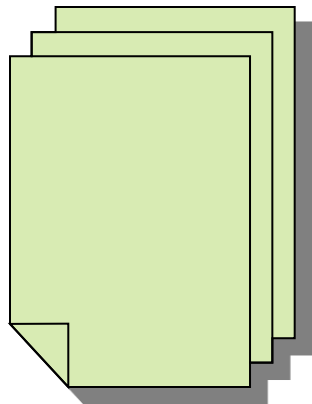
Legal Frame work



- **Depositories Act, 1996**
- **SEBI (Depositories & Participants) Regulations, 1996**
- **Circulars issued by SEBI**
- **Bye Laws**
- **Operating Instructions**
- **Communiqués issued by CDSL**
- **Prevention of Money Laundering Act, 2002 (PMLA)**



Submission of Reports & Documents



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Reports / Documents to be submitted to CDSL

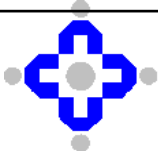


Report/ Document	Frequency	Due date	To be submitted By
Annual financial statement	Annually	30th Sept	Main DP
Net worth Certificate (format- Comm.1411)	Annually	30th Sept	Main DP



Reports / Documents to be submitted to CDSL

Report/ Document	Frequency	Due date	To be submitted By
Internal audit report Comm. 2628	Half yearly	15th May & 15th November	Main & branch DP
Report of Concurrent audit of risk prone areas Comm. 2357	Half yearly	Along with internal audit report	Main & branch DP



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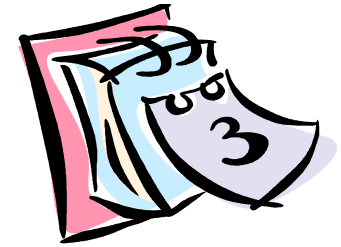
Reports / Documents to be submitted to CDSL



Report/ Document	Frequency	Due date	To be submitted By
BO grievance report- (format Comm. 1529 & for soft Comm. 1720)	Monthly	10th of next month	Main DP (include branch report)



Reports / Documents to be submitted to CDSL



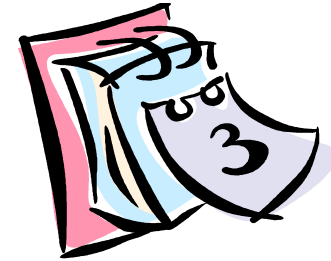
Compliance/ Document	Frequency	To be submitted By
Compliance report for Internal audit/ Inspection	within 30 days	Main / branch DP
No. of STRs filed with FIUIND	Monthly	Main DP
Change in Compliance officer details	Immediately	Main & branch DP
Change in address of office	Immediately	Main & branch DP



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Information / Documents to be submitted directly to FIU-IND



Particulars	Due Date
Suspicious Transaction Report (STR)	To be submitted within 7 days of discovering the suspicious transaction.



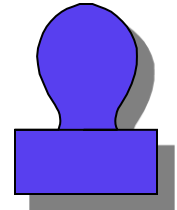
Account Opening & Modifications



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Account Opening

- **KYC verification**
 - ‘Verified with Original’ stamp
 - ‘Verified in –person’ stamp
 - In person verification by stock broker holding or subsidiary company.
 - “Web Camera” allowed
 - Signature of DP official under DP stamp
- Self Attestation of KYC documents for accounts opened after 16.03.2009.



Account Opening

- **KYC**

- Telephone bills / Electricity bills

- Not more than 3 months old



- Mobile bills can not be accepted as proof of address.

- Expired documents

- Correspondence address either in third party name or in the name of BO and permanent address in the name of BO only.



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Account Opening



– PAN Card

- **“Pan Verified” stamp to be affixed**
Comm. 2419 (a/cs opened after 21/04/2011).
- **Mismatch in PAN card**
 - **Record of due diligence to be kept on record**
- **PAN card of guardian & minor required**

– PAN Non Compliant accounts

- **Suspended for credits also other than auto corporate actions in the account**



Account Opening

- **NRI A/cs**
 - **Without repatriation – No necessity to obtain Proof of Indian address. Proof of foreign address mandatory**
(Comm.2508 dated 20.06.2011.)
 - **P.O. Box No – Under declaration from BO**
 - **Declaration for compliance with FEMA and other regulations needs to be obtained.**



Account Opening

- **HUF A/C**
 - **A/c can be opened in the name of Existing karta or HUF Entity.**
 - **All documents for Karta as required for Individual.**
 - **Address of Karta or HUF entity can be entered in CDAS. POA required for Karta and HUF entity both.**



Account Opening

- **HUF A/C:**
 - **PAN card of HUF.**
 - **Karta's Declaration & shall sign under HUF Stamp.**
- **Corporate A/C:**
 - **Landline telephone bills / electricity bills (not more than 3 months old) as address proof.**
 - **Change in corporate address – Form 18 & 23 not required.**



Account Opening

Minor A/cs

- **Sole holder**
- **Operated by Guardian**
- **Guardian shall sign across the photo of minor**
- **Death of guardian in case of existing Minor account holder – New A/c op form & agreement but same BOID. (procedure as per O.I 2.3.3)**



Account Opening

CM Pool/Principal / Early pay in accounts:

- **In the name of proprietorship/partnership firm can be opened (communiqué 1807 dtd.4.12.09)**



Account Opening

- **Agreements**
 - **To be in specified format as per Bye laws (new clauses as per comm. 1597)**
 - **Agreements to be signed by both the parties**
 - **Witness for DP and BO required**
 - **Penalty as applicable under KYC deviation**



Account Opening

- **Nomination**
 - **New accounts opened would mandatorily record the nomination or dissent to nominate (communiqué 1424 dtd.16.01.09).**
 - **Nomination form signed by all BOs.**
 - **Nomination Registration Number should be mentioned on the nomination form.**
 - **Two witness**



Account Opening

- **Nomination**
 - **Minor can nominate**
 - **Nomination register as per operating instructions 3.4.2.1**
 - **Nomination valid only if entered in CDAS**



Account Opening

- **Signatures**
 - **Signatures of all joint holders to be scanned**
 - **HUF a/c**
 - **Karta to sign under the stamp of HUF**
 - **Corporate / CM A/c**
 - **Mode of Operations to be specified & captured in system.**
 - **Signature of Power of Attorney Holders to be scanned**



Account Opening

- **Financial details and nature of business to be obtained**
- **Photographs to be pasted & not stapled**
- **Signature across photograph**
- **Details of AOF to be correctly entered in CDAS**
- **A/c opened under wrong name & status / sub-status.**



Account Opening

- **Uniformity in KYC Documents**
 - **POI & POA in foreign language – translation in English required.**
 - **For Merchant navy NRI - Mariner's Declaration or certified copy of Continuous Discharge Certificate (CDC) required.**
 - **Proof of address in the name of spouse.**



Account Opening

Uniformity in KYC Documents (Contd)

Additional documents which can be accepted :

- **MINOR A/c – Leaving Certificate / Mark sheet / HSC Certificate / Passport included.**
- **Proof of address – Flat Maintenance Bill/Insurance Copy allowed and utility bills including Gas bill / Bank statement/ Passbook (not more than 3 months old)**



Account Opening

- **Uniformity in KYC Documents (Contd)**
 - **Proof of Identity** – UID card included
 - **Corporate / Partnership/Trust** ---Photograph, POI, POA, PAN of whole time directors and authorized persons/ Promoters/ Partners / trustees and copy of the balance sheet for last 2 financial years in all the above 3 categories.



Account Modifications

- **Change of address**
 - **Proof of new address to be obtained**
 - **Letter to be sent to the old as well as new address**
- **Change in signature without personal visit of BO**
 - **Bank attestation to be accepted with old & new signature.**
- **Change in bank details**
 - **Proof of new bank details to be obtained**
- **Dividend bank details only to be obtained**



Account Modifications

- **Bank DP need not obtain proof from BOs having banking relationship from same Bank.**
- **Change / revocation of Power of Attorney**
- **Change in demographic details (Comm. 2532).**
- **Letters confirming modification**
 - **To maintain the hard copies or soft copies of letters along with proof of dispatch. If sent in electronic form, provisions of the Information Technology Act, 2000 to be complied with.(comm. 1962 dt. 16.04.2010).**



Instruction slip processing



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Issue of Instruction slips

- **Proper inventory management**
 - **Reconciliation**
 - **Maintenance of stock & issue register**



Issue of Instruction slips

- **First Issue**
 - **Proof of dispatch to be maintained**
 - **Should not be handed over to representative of BO**
 - **If handed over to BO – sign of BO maintained**



Issue of Instruction slips

- **Subsequent Issue**
 - **On the basis of requisition slips**
 - **Dispatch of DIS booklet, POD to be kept on record.**



Issue of Instruction slips

- **Requisition slips without instruction slip serial number range / Letter instead of requisition slip**
 - **Issued on personal visit of the BO**
 - **POI of BO to be kept on record**
 - **Not to be handed over to person other than BO.**



Issue of Instruction slips

- **Issue of loose DIS**
- **Annexure to DIS**



Acceptance of Instruction slips

- **Instruction slip serial number to be checked against issue details.**
- **Signatures of all BOs obtained / as per mode of operations .**
- **Date and time of receipt stamp affixed.**
- **Maker-checker concept followed.**
- **POA executed by CM settlement purpose.**
- **DIS signed by the POA holder (Authorized person) has to be kept on record in case of Transactions executed on the basis of POA.**



Acceptance of Instruction slips

- **Verifier for slips with value more than 5 lakhs. Two step verification. (Comm. 2487).**
- **Debits in dormant accounts - Two step verification. (Comm. 2487).**
- **Fax Transactions - Original DIS has to be obtained within 3 working.**
- **Execution of transactions based on receipt of digitally-signed electronic instructions as per Procedure in O.I - 17.9.**



Areas of concern

- **Issuance Of DIS booklet**
- **Misuse of DIS booklets**
- **All rights with one person – especially in branches**
- **Issue of DIS booklets without requisition slips**
- **Blank signed DIS accepted at DP's office**
- **Reconciliation with broking back office**
- **High value transaction verification**
- **Execution of transaction in dormant account**



Eye Openers



Unauthorised Transfers

Modus operandi :

- 1) Fabricated statements being generated by the branch and given to the BOs. Invariably, such statements were received by BOs very late.**
- 2) Forging the signatures of the account holders.**



Eye Openers



- 3) Keeping blank signed DIS of BO's and carried out unauthorized transfer of securities.**
- 4) Duplicate DIS being printed and used for transferring securities.**
- 5) Account details being modified such as correspondence address / telephone numbers without proper authority or without modification.**



What helped wrong doings:



- 1) No scope for blocking either used DIS or DIS reported misplaced/ stolen by the BO.**
- 2) Ignoring the alerts given by back office system regarding DIS already executed by DP staff.**
- 3) No system of reconciliation of the total stock of printed DIS booklets received, with physical stock of DIS booklets, DIS booklets issued and delivered to the client and DIS booklets issued to the clients but not delivered.**



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- 4) Maker checker system was not strictly followed in the back office.**
- 5) Dormant a/c check, though existing in back office is over-ridden.**
- 6) In case of alleged forgery of signature, the DPs do not have proof of dispatch of DIS booklet to the BO.**





Case I

Letter for loss of DIS booklet forwarded along with PAN card copy to the Main DP by the branch official

Lapses

- The PAN card was verified by the branch official who had resigned long back**
- The DIS booklet was not issued to the BO**
- The maker-checker-verifier concept was not followed**
- Dormant a/c check, though existing in back office was over-ridden**

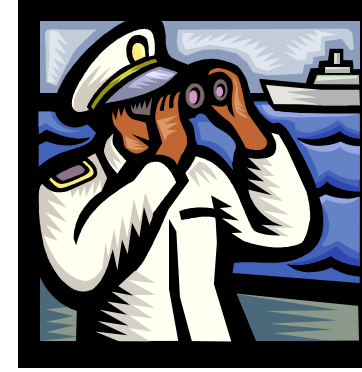




Case II

- **Direct entry in CDAS**
- **High value transaction report ignored**
- **Reconciliation between broking back office and transaction executed on CDAS not conducted**





Case III

- **Forged transaction statements sent to BOs**
- **Lapses**
- **All rights with one person at the branch**
- **Transaction statements despatched by the Main DP to the branch for onward despatch**





Case IV

- **Use of earlier used instruction slips with alterations .**
- **Lapses**
 - **Over-riding feature in back office**
 - **Alterations accepted without authorisation.**



Risk Mitigation Measures

- **SMART registration**
- **Easi and Easiest**



*Dematerialisation
&
Rematerialisation*



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Dematerialization / Rematerialization

- **Date of receipt stamp to be affixed on DRF when received from BO.**
- **To be sent to Issuer \ RTA within 7 days of receipt**
- **Rejections to be analysed.**
- **Rejected certificates to be sent to BO within 7 days of receipt.**
- **PODs to be maintained.**



Dematerialization / Rematerialization

- **Follow-up with RTA to be done**
 - **For pending Demat & Remat**
 - **For non receipt of documents within 30 days of rejection date.**
 - **For physical securities lost in transit**



Account Closure



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Account Closure by BO

- **Closure request by power of attorney holder not accepted**
- **Request to be initiated within 2 days from the date of receipt**
- **Shifting of Account – requirement of submission of DIS and return of unused DIS has been discontinued.**



Account Closure by BO

- **Transaction statement not sent as per requirement**
 - for the quarter in which the request is received
 - Final statement with zero balance with “account closed / to be closed marked on statement”
 - Proof of dispatch



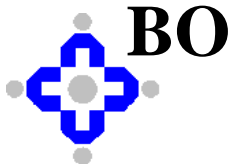
Account Closure by BO

- **Long pending demat requests more than 60 days**
 - DP should advise BO to submit request for cancellation of demat request (as per format given in annexure 10.3)
 - After receipt of request, DP should forward the same to CDSL (as per format given in annexure 10.4) along with BO's request
 - On rejection by CDSL, DP should set up the request for closure communiqué 2017)



Account Closure –initiated by DP – deviations

- **Notice of 30 days to BO specifying the reasons not given**
 - **Proof of dispatch and copy of the notice not maintained**
- **Service of notice**
 - **Not in terms of agreement**
- **Non-payment of dues related to DP operations**
 - **Two days notice not given before refusing to service**



BO

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C o n v e n i e n t ♦ D e p e n d a b l e ♦ S e c u r e

Other Transactions



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Transmission

- **Original / Notarised /attested death certificate to be obtained**
- **Documents like probate etc. wrongly insisted even though death of joint holder / transmission to a nominee**
- **Joint accounts-Survivors can open new account based on same documents**



Transmission(contd....)

- **Transmission possible in demat account with other depository through Interdepository module in CDAS.**
- **All transmission requests to be processed within 7 days**



Other transactions - Deviations

- **Pledge / Freeze**
 - In accordance with procedure
 - Pledge to be processed within 15 days from set up, if not, it will be cancelled in CDAS.
- **PRF / Freeze form to be kept on record**
- **Freeze initiated by DP without instructions received from CDSL or statutory / regulatory authority**

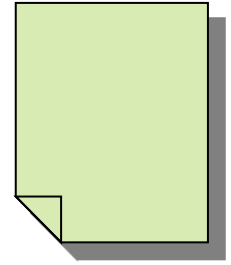


Maintenance of Registers

- **Suspicious Transaction Register**
 - **Analysis of alerts to be recorded**
 - **Format as per comm 762.**



Transaction statements

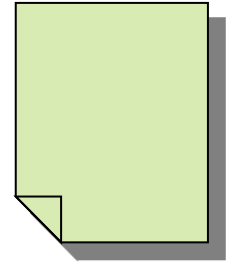


- **Branch BO statements to be sent directly by Main DP**
- **Statements to be sent as per prescribed frequency**
 - **At the end of every month – if any transaction**
 - **Otherwise - at the end of each quarter**
- **Maintenance of despatch records and PODs**
 - **If hand delivery – sign of BO not kept on record**
- **e statements can be sent as per prescribed procedure**



Transaction statements

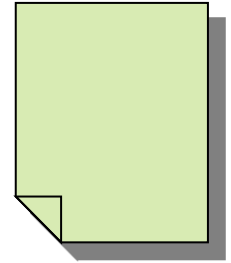
(contd..)



- **Exemption for sending transaction statements with nil balances to BOs (comm.1640 dtd. 11.07.2009).**
- **To send transaction statement in electronic mode/e-mail separate agreement is not required. DP-BO agreement revised to that extent. (Comm 1597 & 2453).**



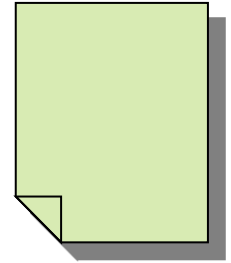
Power of Attorney (POA)



- **Power of Attorney:**
- **POA document to be as per SEBI guidelines (Comm 1977 & 2102).**
- **Setting up of Power of Attorney:**
 - Set up /Modification of power of Attorney to be recorded in CDAS immediately.



Power of Attorney



POA register:

- **Power of Attorney register to be maintained as per operating instructions 3.4.4.1.**

SMS alert Facility

- **Mandatory Registration for SMS alert facility for POA registered BOs on or after 15.06.2009 except in demat accounts of NRI/FN.**





Staff Requirements

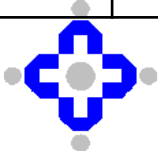
- **Compliance Officer at Main and Branch DP**
 - **Should be an employee of the DP**
 - **Updating of compliance officer details as per format given to be advised to CDSL(comm.1128 dtd. 20/05/2008)**
 - **Alternate compliance officer (Comm. 2415)**
- **Trained Personnel appointed**
 - **for Main and Branch DP**
 - **for Service Centres**

(Comm. 2558 dated. 15/07/2011)



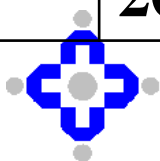
NISM - CLARIFICATIONS

SR No	BCCD / CDSL / NCFM CERTIFICATION	DOCE CERTIFICATION
1	Associated persons presently employed by a DP and not having either of BCCD / CDSL / NCFM Certification as on March 29, 2011.	- Should obtain DOCE Certification on or before March 29, 2013.
2	Associated persons employed by a DP and having either of BCCD / NCFM Certification as on March 29, 2011.	Should obtain DOCE certification before expiry of the validity of the said certification.



NISM - CLARIFICATIONS

SR No	BCCD / CDSL / NCFM CERTIFICATION	DOCE CERTIFICATION
3	New Associated person employed by a DP after March 29, 2011.	- Should obtain DOCE Certification within one year from date of employment of the official.
4	Associated persons employed by a DP and holding a certificate on completion of CDSL's DP TRAINING PROGRAM on or before March 29, 2011.	- Should obtain DOCE Certification within three years from date of completion of such program.



Service Centre – Compliance requirements

- **Details of service centers / drop boxes to be provided to CDSL. Comm 1758 & 2454.**
- **Staff involved in DP operations including at branches**
 - **Details with photographs maintained by Main DP**
- **Scope of activity clearly documented**
- **Display the name of main DP and scope of services**
- **Employ trained staff**



Service Centre



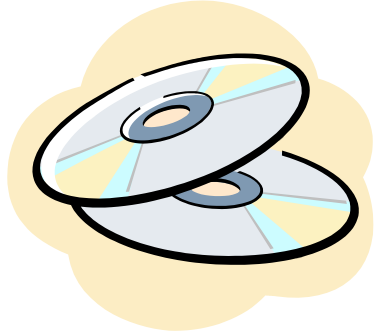
- **Adequate infrastructure**
- **Control, coordination & supervisory setup for reporting events that require management intervention**
- **Adequate provision for safety and security of documents**
- **Reconciliation**



Service Centre

- **Prior approval necessary for new service centre**
- **Franchisees**
 - **Registered with exchanges/IRDA/RBI/SEBI**
 - **Agreement with the DP**
- **Termination**
 - **Alternative arrangements**
 - **Information to CDSL**
 - **Comprehensive take over and maintenance of records**

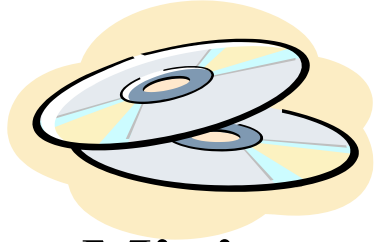




Back office software

- **Mandatory for DPs (communiqué 1577 & 1904)**
- **Minimum features**
 - **Maker-checker**
 - **Approval of verifier required for slips with value of transactions more than Rs.5 lakhs**
 - **Capture of BO signature and retrieval for verification**





Back office software

- **Minimum features (contd...)**
 - **Proper records of instruction slips**
- **Inventory control**
- **Details of serial numbers issued to a BO**
- **Verification of issue details with instruction slip serial no. submitted for execution**
- **Blocking of serial numbers already used & reported as lost/ misplaced**
- **Settlement pocket compliant**
- **Encryption of transaction file created in back**



office

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General



- **Refund of AMC charges**
 - **On closing of the demat account or shifting of the demat account to other DP , AMC collected upfront annually or half yearly should be refunded proportionately.**



General



- **No joint holders allowed for HUF/AOP/Minor demat accounts.**
- **New sub-status ‘Minor’ created for accounts with status Individual/NRI/Foreign National. For all other account status and sub-status set up/guardian details not allowed.**
- **Entry of Guardian details made mandatory for “minor” accounts.**
- **Deleting of guardian details for minor accounts not allowed. (Only modification on death of guardian).**



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General



- **Report to be discussed by auditors before signing**
- **Management comments to be incorporated**
- **Issues to be discussed with CDSL during audit process**



Penalty

- **To impress upon DPs the importance of compliance**
- **Penalties credited to BO Protection Fund**
- **Revised penalty structure – common for both depositories**

Salient features

- **Escalation of penalties**
- **No cap on penalty**
- **Removal of concept of penalty points**
- **Accumulation of penalty**



Penalty

- **KYC non-compliance, transaction statements not sent as prescribed in operating instruction observed in inspection of DPs**
- **In spite of concurrent audit of DP, KYC non-compliance observed in inspection and attracts heavy penalty to DP**
- **Non-compliance observed during inspection discussed with internal/concurrent auditors**



Sampling plan

- **Increase in sample size of Inspection on the basis of penalty history.**
 - **Account opening**
 - **DIS**
- **Auditors to increase sample size if any grave lapses are observed.**



Common Penalty structure

- **KYC non-compliance**
 - **Accounts opened with unsigned agreement**
 - **Accounts opened without POI**
 - **Accounts opened without POA**
 - **Change in address without POA**
 - **In person verification not maintained**



Common Penalty structureContd

- **Penalty for KYC non-compliance**
 - **Rs. 2500 per instance**
 - **Escalation - Rs. 5000 → DAC**
 - **If penalty exceeds Rs. 50,000 → DAC**



Common Penalty structure

....contd

- **No / inadequate control over issuance and / or acceptance**
 - **Rs. 2500 per occasion**
 - **Escalation – Rs. 5000 → DAC**



Common Penalty structure

....contd

- **BO account debited without proper authorization**
 - **Rs. 2500 per account**
 - **Escalation Rs. 5000 DAC**
 - **If exceeds Rs. 50,000 → Refer to DAC**
 - **Penalty in addition to restoration**



Common Penalty structure

.....contd

- **IAR / CAR submitted without management comments / not providing compliance**
 - **Rs. 1000 per occasion + Rs. 500 per fortnight.**
- **Any transaction not processed as per operating instructions**
 - **Rs. 500 per account**
- **Transaction statement not being sent to BOs as per requirements**
 - **Rs. 2000 per occasion**



Non submission of reports

- **Non – submission of Internal Audit Report & / or Concurrent Audit Report in the prescribed format**
 - **Rs. 1000 per occasion plus additional Rs. 500 for any delay per fortnight.**
- **Non – submission of net worth certificate**
 - **Rs. 2500 per occasion plus additional Rs. 1000 for any delay per fortnight.**



Non submission of reportscontd

- **Non – submission of annual financial statement**
 - **Rs. 1000 per occasion plus additional Rs. 500 for any delay per fortnight**
- **Non – submission of monthly report of BOs' complaints**
 - **Rs. 500 per month**



Additions to the penalty structure

- **Not connecting for 2 days with CDSL without approval**
 - **Rs. 5000 per occasion plus Rs. 500 per day.**
- **Termination of franchisee contrary to CDSL instructions**
 - **Rs. 500 per occasion.**



Additions to the penalty structure contd

- **Compliance not reported by DP within 60 days from the date of communication by depository**
 - **Matter to be referred to DAC**
- **Carrying out certain functions which are prohibited by Depository through franchisees**
 - **Matter to be referred to DAC**



Thank You



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