

Approval of CDSL for outsourcing of DP activities

Regulation 52 of SEBI (Depositories and Participants) Regulation, 1996 states that no participant shall assign or delegate its functions as participant without the prior approval of the depository.

For obtaining approval of CDSL for outsourcing of DP activities, following documents are required to be submitted by the DP to CDSL

- Request letter detailing the DP activities to be outsourced
- A brief profile of the outsourcing agency including details of experience, infrastructure and staff strength.
- A copy of proposed service level agreement with the outsourcing agency with clear demarcation of activities to be performed by the DP and the outsourcing agency, provision for periodic audit of jobs outsourced to agency and confidentiality clause.
- A declaration regarding compliance with points as mentioned in (a) below.

CDSL will review the proposal and may call for additional information / declarations. The approval will be accorded on case-to-case basis.

General principles for according approval

- a. The DP to submit a declaration confirming following points :-
 - (i) DP will enter into a service level agreement (SLA) with the outsourcing agency.
 - (ii) DP will ensure that the outsourcing agency will have adequate competent staff, risk management systems, procedures and manuals, disaster recovery procedures for the activities outsourced to them.
 - (iii) KYC compliance and in-person verification will be undertaken by DP officials.
 - (iv) DP will be accountable for compliance with all SEBI, CDSL and other regulatory guidelines issued from time to time.

- (v) DP will ensure that documents are submitted to CDSL or any other statutory/regulatory authority as and when requested and would be responsible for reporting under KYC, Anti Money laundering Norms etc. to relevant authorities. DP will also ensure that the outsourcing agency will comply with all the directions issued by CDSL with respect to operation related to DP services.
- (vi) All communications to clients will be signed and authenticated by the officials of DP.
- (vii) DP will be solely liable in case of any failure, breach of security or leakage of information. Further, DP will also ensure that data related to depository services is not used for any other purpose and proper system is put in place to ensure the same.
- (viii) DP will be solely responsible for any errors, omissions, acts of negligence and/or willful defaults by the outsourcing agency. The DP will be solely liable to compensate the BOs and/ or CDSL for any loss incurred due to above mentioned acts and / or non-compliances by the outsourcing agency.
- (ix) DP will implement an adequate complaint redressal mechanism and will handle customer complaints.
- (x) DP will do periodic review of the operations of outsourcing agency. The internal auditors of DP will review the control mechanisms with outsourcing agency and also do periodic review of the systems to ensure that adequate systems and procedures are put in place. All audit / compliance related matters will be handled by the DP and internal and concurrent audit will be carried out by auditors appointed by the DP.

- (xi) DP will reconcile regularly the documents sent to outsourcing agency with the data uploaded on CDAS/ its back office.
- (xii) Inspecting authority of CSDL will be given access to the premises, facilities, systems, records and books of the outsourcing agency pertaining to its DP activities and shall permit copies thereof to be made.
- (xiii) DP will take prior approval of CDSL for any substantive change in the service level agreement.
- (xiv) The agreement between the DP and outsourcing agency will include an enabling clause to allow CDSL / DP or the persons authorized by it to access the relevant information / records with outsourcing agency relating to outsourced activities within a reasonable time.
- (xv) DP will ensure that contingency plans based on realistic and probable disruptive scenarios are in place.
- (xvi) The CDSL server, workstation and infrastructure would be under control of DP

b. **Following activities are generally not to be outsourced :-**

- (i) Core management functions such as formulating policies and procedures, monitoring of internal controls & supervision of outsourced activities.
- (ii) In-person verification and verification of KYC documents.
- (iii) Authorisation for issue of DIS booklets.
- (iv) “Checker” and “ verifier” activity (as in “maker-checker” concept)
- (v) Analysis of PMLA alerts and other surveillance activities and decision based on such analysis.