Central Depository Services (India) Limited

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COMMUNIQUÉ TO DEPOSITORY PARTICIPANTS

CDSL/A,I&C/DP/POLCY/2019/111 **March 01, 2019**

DUE DILIGENCE IN DEPOSITORY OPERATIONS

During the inspection of DPs for the year 2018-19 conducted by CDSL, certain non-compliances have been observed in following areas which may expose the DPs to potential risk. In order to raise the compliance level and to mitigate the risk, DPs are advised to take note of the same:

Account Opening

1. Corrective actions are not taken by DP, for cases kept on hold/ rejected by KRA. (Refer Comm.2774)
2. SEBI guidelines for implementation of KRA Regulations have not been followed.
3. In case of HUF account, POA is not signed by all members.
4. DP does not follow the procedure of carrying out initial KYC nor upload the information along with scanned images of KYC documents to KRA.
5. DP has not reassessed the eligibility of 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 accounts.
6. Guidelines as per SEBI circular no. CIR/MIRSD/2/2013 dated January 24, 2013 on Identification of Beneficial Ownership are not followed by DP.

Demat Related

1. Demat certificates along with rejection letters are not returned to the concerned BO within 7 days of receipt of the same from RTA.

DIS Related

1. DIS does not contain information on consideration amount/Reason/purpose in cases of transfers from one BO account to another for off-market transactions.
2. DP does not verify transactions originating from dormant accounts independently with the account holders before execution and record the details of the process on instruction slip (Refer O.I - 6.5.4.9).
3. If delivery instruction slip booklet is not issued on the basis of requisition slip, the procedure prescribed under operating instruction no.6.5.1.12 is not followed.

4. The delivery instructions accompanied by annexures are not accepted and processed as per the procedure prescribed by CDSL.

PMLA Related

1. DP has not updated the income details of the BO in CDAS and Back office system.
2. DP does not check/monitor the transactions/ value of securities in the demat account of the BO(s) based on income and occupation details as per PMLA guidelines and follow ongoing due diligence for ensuring effectiveness of the AML procedures.
3. DP has not updated and incorporated all the points in its PMLA policy as per guidelines of PMLA and SEBI Circular SEBI/ HO/ MIRSD/ DOS3/ CIR/ P/ 2018/ 104 dated July 04, 2018.
4. DP has not categorized clients into low, medium and high risk based on perceived risk depending upon client's background, type of business activity and transactions.
5. The periodicity of review of policy is not defined in the PMLA policy.
6. PMLA policy does not have clause defining the periodicity of updating of documents taken during the client due diligence (CDD) process.

Other Areas

1. All associated persons other than those engaged in basic elementary / clerical level activities & supervised by NISM DOCE certified personnel, are not NISM-Series VI DOCE certified/ attended CPE programme as applicable to grandfathered employees. (Refer comm. 4650 dated 21.08.2014).
2. Compliance Officer of the DP has not obtained NISM-Series-III A: Securities Intermediaries Compliance (Non-Fund) Certification Examination ("SICCE") as per SEBI notification dated 11th March 2013.(Refer Communique 3549).
3. DP has not uploaded separate mobile number and e-mail address for each client as per SEBI guidelines (Refer communique no 5139).
4. All formats used by the DP are not in conformity with CDSL's prescribed format.
5. The DP does not use its 'easiest' login for processing of instruction(s) at least once in a month.
6. Back office software is not been used extensively for all DP activities (Refer comm.1577 dtd.13.05.2009).

The DPs are further advised to ensure that, in case of In-person verification (IPV), details like name of the person doing IPV, his/ her designation, organization with his/ her signatures and date are recorded on the KYC form at the time of IPV.

Compliance / DP officers are advised to take proper care to strengthen the internal controls and take steps to avoid such non-compliances.

Queries regarding this communiqué may be addressed to **CDSL–Audit** on telephone no. (022) 2305-8679, 8578 and 8518.

Latha Kishore Nair

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