CDSL/A,I&C/DP/POLCY/3579 **March 25, 2013**

DUE DILIGENCE - SUPERVISION OF SERVICE CENTRE OF DEPOSITORY PARTICIPANTS

1. Many Depository Participants (DPs) operate through branch offices which are connected through Back office software and provide some of the depository services to their clients. Such branch offices whether termed as back office connected branch, collection centre or franchisee by the DPs, are treated as service centres by CDSL.

2. SEBI vide circular no. **MIRSD/DPS-III/Cir-9/07** dated July 03, 2007 instructed **the Depositories to carry out surprise inspections/ checks of the DP branches (i.e service centres) apart from the regular inspection of the Main DPs.** Accordingly CDSL has been carrying out inspection of some service centres of each DP.
   We have listed commonly observed non-compliances in the **Annexure A**, to enable the DPs to avoid recurrence of such non-compliances in future. It may be pointed out that the Main DP shall be responsible for all acts of omission and commission of all its service centres. Therefore the DPs should ensure that their service centres have trained staff with updated knowledge of DP operations so that compliance level is improved.

3. **To enable the inspection of service centres, Main DP / Service Centres need to keep on record following documents:**
   a) Identification documents (including photo-identification) of all the persons engaged in DP operations –
      (i) at their Main office;
      (ii) at service centre
   b) Documents detailing the scope of activities / rights given to each Service Centre at the Main DP Office. One such copy to be maintained at respective Service Centre for verification by Audit Officials. This documentation should include the following:
      (i) Rights given to each Service Centre
      (ii) If execution of DIS is done at the branch - Authorization levels of each type of transaction, i.e.
         ⇨ Maker / Checker / Verifier (High Value and Dormant Transactions)

c) Record-keeping procedure, including Exception Reporting Mechanism, Maintenance of Registers(eg: Investor grievance register, Inward & Outward registers, DIS issue registers, Physical Inventory registers etc), Agreements, Inventory of Instruction Slip Booklets.

4. **The Service Centre should fulfill the following requirements:**

a) It has displayed the **List / Types of Service**s provided to the BOs by their Centres. The display board / chart should be prominently visible to the clients. The **DO'S AND DON'T**S should also be displayed similarly (see **Annexure-B**).

b) Associated persons engaged or employed at a service centre in: (i) dealing or interacting with clients; (ii) dealing with securities of client; (iii) handling redressal of investors grievances; (iv) internal control of risk management; (v) activities having a bearing on operational risk or (vi) maintenance of books and records pertaining to the above activities, shall have NISM-Series-VI: Depository Operations certificate (Refer communiqué 2427, 2558 and 3504)

c) Service Centres operational through Back office software have minimum features in their back office software as per communiqué 1577. (as per rights given to the staff)

d) Name of the Main DP is displayed prominently on the premises of the branch.

e) **If service centre is managed by a franchisee:** In addition to the guidelines given in (a), (b), (c), & (d) above, DPs are advised to ensure that:

- ➔ Franchisees appointed from November 01, 2007 onwards should be 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.
- ➔ DPs should sign 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.
- ➔ Franchisee will not have the checker rights in case of execution of DIS / Transactions.

5. **Procedure for Approval, closure , changes in contact details of Service Centre**

a) Approval of a Service centre:

DPs are advised to note that with effect from November 01, 2009, prior approval of CDSL should be obtained for opening a DP Service Centre including back office connected branches and collection centres. For this purpose, an application is required to be submitted to **CDSL –DP Admission Cell** along with the requisite information in the prescribed formats [see **Annexure C and Annexure D**]. DPs are also advised to ensure that a soft copy of the information as per **Annexure C** is forwarded to CDSL, at email ID: scapprovals@cdslindia.com.

b) Closure of Service centre:

While ceasing 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 The DP shall inform **CDSL –DP Admission Cell** about closure of such service centre within 10 days of termination, in the prescribed format as given in **Annexure E**. The DP shall also give an undertaking on the letter head of Depository Participant (DP) for closure of Service Centre of DP in the prescribed format as given in **Annexure F.** The Main DP shall ensure complete takeover and maintain the records of terminated service centres.

c) Changes in Contact details of Service Centre like Address or Contact Person:

DPs are advised to inform any changes with regards to contact details of service centre to **CDSL –DP Admission Cell** giving the old as well as new details along with **Annexure C.**

DPs are advised to ensure that any communication to CDSL relating to service centre is on the DP’s letterhead and signed by the authorized signatory mentioning the Service Centre ID.

Queries, if any, regarding this communiqué may be addressed to **CDSL-Audit**: (022) 2272 5010 / 5152 / 8647 / 8631 or 8564 OR **CDSL –DP Admission Cell**: (022) 22725098 / 8670 / 8636

sd/-

Satish Budhakar
Senior Vice President & Group Company Secretary

Commonly observed non-compliances

(i) SC not having trained staff / Staff not possessing NISM certification

(ii) DP-Franchisee agreement not made available for verification.

(iii) Franchise 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 is not made available for verification.

(iv) Agreement for appointment of Business Associate (Franchisee) executed with a validity period of one year. No documents available for verification for extension of agreement.

(v) Scope of activities has not been made available for verification.

(vi) Services offered to BOs related to DP activities are not displayed in branch premises.

(vii) Stock register of DP related stationary is not maintained (e.g.: account opening, demat, remat & pledge etc) is not available at branch premises / Stationery related to demat is not available at the branch.

(viii) The Service centre staff doing maker entry of Account opening in their back office software. However, as per scope of activity no such rights have been given the SC staff.

(ix) Name of main DP is not displayed at the premises.

(x) No reconciliation and record keeping procedure observed / No reconciliation procedures are being maintained by the branch / No inward outward register maintained for document flow relevant to DP operation.

(xi) As per Scope of activities, DIS requisition from BO has to be accepted at Branch DP and to be forwarded to main DP, however it was observed that all such DIS was issued from Branch DP.

(xii) As per Scope of activities Re-issue of DIS was assigned to Service centre, however no such physical inventory or DIS issuance register was maintained.

(xiii) Dos and Don’ts are not displayed at branch.

(xiv) Back office software does not have the feature of having BOs signature. (It is advised to incorporate this feature as the service centre has been given the rights to do maker entry for DIS execution / Demat-remat / etc. Also if any DRF rejects is to be handed to BO, the signatures cannot be verified due to the absence of Signature in back office software.)

(xv) First DIS was issued to the BO & the same was not issued through Back Office software by the Branch DP .Issue details was not updated in back office software.

(xvi) Change in address of service centre is not informed to CDSL by Main DP.

(xvii) As per scope of activities, service centre is assigned to do the maker entry in their back office software but maker login id has not been given to the branch officials.

(xviii) Only Checker ID is operational. Moreover maker entry is also done through the same login details

(xix) Physical Inventory of DIS is neither maintained nor physical inventory tallied at regular intervals.

(xx) Investor Grievance register is not maintained at the service centre.

(xxi) Login-ID & password of back-office software is not allocated to branch official, hence they are not able to provide CDSL depository services to their clients.

CENTRAL DEPOSITORY SERVICES (INDIA) LIMITED

MANAGING YOUR DEMAT ACCOUNT WITH CDSL

SIMPLE DOs and DON'Ts

1. Verify your transaction statement carefully for all debits and credits in your account. In case of any unauthorized debit or credit, inform your DP or CDSL.
2. Intimate any change of address or change in bank account details to your DP immediately.
3. While accepting the Delivery Instruction Slip (DIS) book from your DP, ensure that your BO ID is pre-stamped on all the pages along with the serial numbers.
4. Keep your DIS book safely and do not sign or issue blank or incomplete DIS slips.
5. Strike out the empty space, if any, in the DIS, before submitting to DP.
6. For market transactions, submit the DIS ahead of the deadline time. DIS can be issued with a future execution date.
7. The demat account has a nomination facility and it is advisable to appoint a nominee to facilitate your heirs in obtaining the securities in your demat account, on completion of the necessary procedures.
8. To open and operate your demat account, copy of PAN card of all account holders is to be submitted to the DP along with original PAN card, for verification.
9. Register for CDSL's SMART (**SM**S **A**lerts **R**elated to **T**ransactions) facility. If any unauthorized debit is noticed, the BO should immediately inform CDSL and the Main DP, in writing. An email may be sent to CDSL at complaints@cdslindia.com.
10. Register for CDSL's Internet based facility "*easi*" to monitor your demat account yourself. Contact your DP or visit CDSL's website: www.cdslindia.com for details.
11. In order to receive all the credits coming to your demat account automatically, you can give a one-time, standing instruction to your DP.
12. Before granting Power of Attorney to anyone, to operate your demat account, carefully examine the scope and implications of powers being granted.

Annexure C

Form A-1

DP ID:
Name of the DP:

Sr. No.	**Address of the Service centre**						**Details of contact person**						
	Address 1	Address 2	Address 3	City	PIN Code	State	Name of contact person	Designation of contact person	Tel no.	Fax No.	Mobile No.	e-mail address	PAN of contact person
1													
2													
3													
4													
5													

Undertaking:
We hereby agree and undertake that we will immediately notify CDSL in case of any change in the information provided herein above.

For <*Name of the DP*>
Authorised Signatory
Designation
Date:
Place:

** Services offered: e.g. Acceptance of Account opening forms, KYC verification, Maker entry of account opening, Checker entry of account opening, Issue of DIS, Acceptance of instructions, Maker entry of instructions, Checker entry of instructions, Verifier entry of instructions etc.*

(Please note that comments in italics are for the purpose of guidance of the DP. The same should not be printed while submitting the information)

Annexure C

Form A-1

DP ID:
Name of the DP:

Sr. No.	**Training details**		**Services offered by the Service Centre***	**Additional Information, if the Service Centre is managed by a Franchisee**				
	Name of the trained person	Training (CDSL/ BCCD)		Name of the Franchisee	Registration numbers of the Franchisee (i.e. registered with SEBI/ RBI or any other regulatory authority)	Regulatory authority	Name of the Directors of the Franchisee	PAN of the Directors
1								
2								
3								
4								
5								

Undertaking:
We hereby agree and undertake that we will immediately notify CDSL in case of any change in the information provided herein above.

For <*Name of the DP*>
Authorised Signatory
Designation
Date:
Place:

** Services offered: e.g. Acceptance of Account opening forms, KYC verification, Maker entry of account opening, Checker entry of account opening, Issue of DIS, Acceptance of instructions, Maker entry of instructions, Checker entry of instructions, Verifier entry of instructions etc.*

(Please note that comments in italics are for the purpose of guidance of the DP. The same should not be printed while submitting the information)

Ref. No. __________________ Date: _____________

Central Depository Services (India) Limited
Admission Cell
16th Floor, P J Towers
Dalal Street, Fort
Mumbai – 400 001

Dear Sir / Madam,

We seek CDSL's approval for opening a new DP Service Centre. We enclose, herewith, requisite information of the Service Centre [refer to Annexure-17.5].

We hereby undertake that:

a. The service centre has and will maintain adequate infrastructure commensurate with the type of depository services being offered at the service centre.
b. The service centre has and will have at least one person who is depository trained and certified or BCCD certified.
c. The Participant has and will maintain on record identification documents (including photo identification) of all the persons engaged in DP operations at the service centre.
d. The service centre will have the name of the Main DP prominently displayed in the premises of the service centre.
e. *If such a service centre is managed by a franchisee, following additional confirmation to be submitted by the DP :*
    - The service centre located at ________will be managed by the franchisee _________ *(please mention name of the franchisee entity)* The franchisee is duly registered (with a valid registration certificate) with a regulatory authority namely *…. (the name of the regulatory authority like recognized stock / commodity exchange, SEBI, RBI or IRDA etc. to be mentioned)*.
    - The DP will ensure that validity of the registration continues, otherwise the DP will terminate the franchisee arrangement for DP operations with such entity. *(It may be noted that if a franchisee has submitted renewal application within the prescribed time limit and the regulatory authority has not given any decision on the same till expiry of registration, the arrangement can continue till such decision is obtained from such authority.)*
    - The DP has entered into an agreement with the franchisee covering services that can be offered by the franchisee.

We request you to accord your prior approval for the same.

For <***Name of the DP***>

Authorised signatory
Designation

Date :
Place:

Encl: as above

(Please note that comments in italics are for the purpose of guidance of the DP. The same should not be printed while submitting the undertaking).

Annexure E

Form A-2

DP ID						DP NAME									
SR. NO.	SERVICE CENTRE ID	DATE OF SET UP	DATE OF WITHDRAWAL	ADDRESS 1	ADDRESS 2	ADDRESS 3	CITY	STATE	PIN CODE	TEL 1	TEL 2	FAX	E-MAIL ID	NAME OF CONTACT / TRAINED PERSON

Procedure for Closure of Service Center of DP

Please provide the following information /undertaking on the letter head of Depository Participant (DP) for closure of Service Center of DP.

1) We undertake that we have made alternate arrangements to provide service to BO who are availing of depository services through the franchisee/ back office connected branch as the back office connected branch / franchisee has ceased to provide services to BO.

2) We further confirm that we have complied with the requirements as per communiqué no. CDSL/OPS/DP/876 dated April 16, 2007 for termination/ closure of franchisee /back office connected branch.

3) We also confirm that the records of termination/ closure of franchisee/ back office connected branches are taken over by the main DP. Notwithstanding the above, the Main DP shall be responsible for all acts of omission and commission of all its branches including back office connected branches/franchisees.