

**REPORT OF THE SEBI COMMITTEE
TO RE-EXAMINE THE ISSUES
RELATING TO MAPIN**

TABLE OF CONTENTS

	Page No.
1. INTRODUCTION	4
1.1 Preamble	4
1.2 The Developments	4
1.3 Committee for Review of MAPIN	6
1.4 Approach of the Committee	7
2. REVIEW OF MAPIN	8
2.1 Biometrics for Creation of Unique Investor IDs	8
2.2 Investors' Concern	10
2.3 Expansion of Investor Base	11
2.4 Information on Associates & Linkages	11
2.5 Intermediaries	11
2.6 Listed Companies (Issuers)	12
2.7 Inventory of Investors	12
2.8 Selection of POS	13
2.9 Investor Profiles	13
2.10 Updation	13
2.11 Validation	13
2.12 Regulatory Actions	14
2.13 Conclusion	14
3. SEARCH FOR AN ALTERNATIVE SYSTEM	15
3.1 Objectives	15
3.2 Preamble to Unique Investor ID	17
3.3 Proposed New System for Creating Unique ID without Biometrics	19
3.4 Execution	21
4. COVERAGE AND IMPLEMENTATION OF THE NEW MAPIN SYSTEM	22
4.1 The Approach	22
4.2 Phase I: Capital market Unique ID covering Domestic Investors in Debt, Equity and Derivatives market	22
4.3 Phase II: Domestic Investors in Mutual Funds	26
4.4 Phase III: Intermediaries	29
4.5 Phase IV: Listed Companies (including New Issuers)	30
4.6 Phase V: Resident Personnel of Foreign institutional investors	31
4.7 Integrating Existing MAPIN	31
4.8 New Features in the New Form	31
4.9 Updation	34
4.10 Data Entry/Data Capture	34
5. OTHER MATTERS	35
5.1 Advertising/Publicity of the New System	35
5.2 Penalties for Wrong Disclosures	36
5.3 Exemptions	36
5.4 Costs	36
5.5 Scheme Name	36
5.6 Discontinuation of Fresh Registrations	36

5.7	Constitution of a Technical Group	37
5.8	Acknowledgements	37

Annexures

Annexure I :	Trade & Investors Data from Stock Exchanges and Depositories	38
Annexure II :	Data Updation- Some Issues in the Current MAPIN system	41
Annexure III :	Draft : Application Form for Natural Persons	44

1. INTRODUCTION

1.1 Preamble

1.1.1 The Central Database of Securities Market Participants' and Investors' Identification Numbers (MAPIN) was set up by the Securities and Exchange Board of India (SEBI) under the SEBI (Central Database of Market Participants) Regulations, 2003 (MAPIN) and was notified by SEBI on November 20, 2003. MAPIN is proposed to be a central electronic integrated database of market participants and investors, comprising key descriptors of all persons participating in the Indian securities market.

1.1.2 The main objectives of MAPIN were:

- a) create a unique non-duplicable ID for all investors in order to establish an audit trail for any specific transaction. In the absence of a unique investor ID, it was found difficult to identify a person when he operated through multiple exchanges, multiple brokers, multiple Unique Client Codes (UCCs) /Depository Participant (DP) accounts, multiple related entities and sometimes even through slightly different names identify investors who have taken large exposures in the market and/or who are trading through a large number of different brokers, as also enable adequate risk containment measures such as imposition of margins, trading or exposure limits etc.
- b) cover public disclosure of actions taken by SEBI against entities/individuals
- c) develop an inventory of all market participants (issuers/intermediaries/investors).

1.2 The Developments

1.2.1 Since its launch in November 2003, i.e. nearly 18 months ago, only about three lakh MAPIN UINs have been issued, compared to over 70 lakh demat accounts (even recognizing multiple demat accounts, the number would still be very large). This is because of considerable opposition to the MAPIN system entailing fingerprinting. It is also because of lack of clarity on several aspects of the Regulations (leading to a couple of amendments to the Regulations), non-notification of certain categories of

market participants and several extensions to the last date leading to people deferring their plan to obtain the UIN (presently extended to 31st December, 2005). Significantly, many of even the three lakh cards issued may not have been issued to investors, these being non-investing family members and non-investing employees of intermediaries/companies.

1.2.2 The process of information capturing for a natural person involves live scanning of his fingerprints and capturing his photograph and signature. Though several market intermediaries, their employees, institutional and corporate investors (and some individual investors too) have registered in the MAPIN database, most individual investors as well as many other market participants have resisted and have expressed serious apprehensions and concerns on the biometrics-based system.

1.2.3 There also exists confusion regarding many aspects of usage/applicability of MAPIN:

- SEBI circular of 16.7.2004 states that the effective date for use of MAPIN is 2.8.2004 for intermediaries and related persons. All such entities, however, have not obtained a UIN.
- There exists a grey area regarding coverage of employees of intermediaries. While the initial Regulation mandated coverage of all employees, it was subsequently amended to include only the top three layers. There is now a view that this 3-layer concept is confusing and subjective. Instead of this, the Regulation should have listed out a set of functions and any one who is performing these functions in full or in part should have been mandated to obtain a MAPIN. There is an alternative suggestion that each intermediary should define the three layers and to this, the CEO of the intermediary can add such employees that he deems fit.
- Brokers are currently insisting on MAPIN from their corporate investors. Trades are, however, not being rejected in case MAPIN is not provided for corporates and other mandated categories.
- Several brokers are also currently insisting on MAPIN from all individual investors because there is no on-line system for calculating the value of a trade and in case it exceeds Rs. 1 lakh, the broker does not wish to incur a liability /penalty from SEBI.

- Current application forms of IPOs have a field for MAPIN. However, applications are not being rejected in case MAPIN is not provided even by the notified categories of investors.

1.3 Committee for Review of MAPIN

1.3.1 In order to address the various issues and concerns, SEBI, vide Press Release No 51/2005 dated March 7, 2005, set up a Committee. The members of the Committee are:

Chairman

Shri Jagdish Capoor

Former Dy. Governor of RBI and present Chairman of HDFC Bank Ltd.

Members

Shri C. B. Bhavé *

Chairman & Managing Director, National Securities Depository Ltd.,

Shri Prithvi Haldea

Managing Director, PRIME Database

Shri A. P. Kurian

Chairman, Association of Mutual Funds in India

Ms. Deena Mehta

Director, Securities Industry Association of India

Shri A. K. Narayan

President, Tamilnadu Investors Association

*ceased to be a Member of the Committee w.e.f. 24th May, 2005

Shri V.S.Sundaresan, General Manager, Securities and Exchange Board of India acted as Secretary to the Committee.

1.3.2 The terms of reference of the Committee were as under:

- i) Re-examine the coverage of the MAPIN, i.e. the category of market participants and investors who would be required to obtain Unique Identification Number (UIN)
- ii) Suggest future implementation schedule based on the coverage
- iii) Review the cost of obtaining the UIN for the market participants and investors

1.3.3 In a subsequent discussion with SEBI, it was clarified by SEBI that the Committee may also examine any other related matter with respect to creation of unique IDs.

1.4. Approach of the Committee

1.4.1 A detailed analysis of the current issues and procedures concerning MAPIN was undertaken by the Committee over eight meetings. The Committee, through a press release, invited suggestions from market participants including investors. Moreover, the Committee also met representatives of market participants like ANMI, DPAI, Investors Grievances Forum, ASSOCHAM, FICCI and CII to understand their viewpoints. Finally, presentations were invited by the Committee from four software firms with a view to better understand the uniqueness that can be achieved both by a biometrics based and a non-biometrics based system.

2. REVIEW OF MAPIN

2.1 Biometrics for Creation of Unique Investor IDs

2.1.1 Convergence of identity in India continues to be a dream. Several bodies in the past have gone ahead and issued multiple and independent IDs, without any integration, and many more are in the offing. Even in the capital market, two efforts have been made in the past to allot an ID to the investors-DP Client ID and UCC (which is in addition to the folio numbers assigned to investors by mutual funds and by companies). However, for a variety of reasons, an investor was permitted to obtain multiple IDs both times-while he could obtain multiple IDs from a particular depository and also from the second depository, he could obtain multiple UCCs with different brokers of an exchange or across multiple exchanges and as such, it is not that the investors attempted to defraud the system to obtain multiple IDs. A unique ID for investors was once again considered essential and hence MAPIN was conceived. It may be pointed out here that in respect of companies, while the securities of all listed companies have a unique ISIN code assigned to them by the depositories, all registered companies have a unique CIN code assigned to them by the Ministry of Company Affairs.

2.1.2 Instead of using and building upon the existing information resources which would have led to lesser time and costs both to the system and to the investors, a biometrics-based system was set up and MAPIN proceeded to establish a brand new process to create unique IDs.

2.1.3 The key objective of biometrics in the existing MAPIN system is to arrive at uniqueness, and there is no proposal to use biometrics to enable a trade, i.e. capturing transactions in the capital market through biometrics (which incidentally shall then require all investors to have a physical access to a trading terminal). As such, the Committee felt that a simple biometric identification limited only to the capital market may not be sufficient enough to establish identity and ensure audit trail of transactions of a particular person. The argument that all investors and associates should be covered through biometrics because it is not possible to ascertain who would later turn out to be a manipulator does not also stand to reason.

2.1.4 It may be emphasized that all trades are done by human beings, and not by invisibles, and each trade can even presently be traced back to the investor in at least three or four ways: through his depository account, through his broker, through his PAN number and through his bank account (the former two in any case being under SEBI's domain). If with all these, the erring investor cannot be traced, there is no guarantee that he will be traceable with MAPIN. In any case, the biometrics-based ID can only at best prevent a fraudster from trading and that too if he is naive enough to do manipulative trades under his own ID; it cannot help in tracing him.

2.1.5 As the past has shown, fraudsters will always invent new ways of manipulation, and the biometrics-based system too may end up with identities only of honest people. Moreover, if there is a concern that fake identities can be created under the non-biometrics based system, it should be recognized that benami entities can be created under the biometrics-based system and that the biometrics-based system is also not error-free.

2.1.6 The fingerprint-based MAPIN has led to a widely prevalent view in the market that every investor is believed to be a criminal unless proven otherwise. The small investor is also being unnecessarily led to believe that the market is dominated by criminals, which has necessitated such a biometrics-based system. It should be recognized that no scam has ever occurred because of the manipulation by the small investor, who most often is in fact the victim and not the culprit. As such, for the misdeeds of a few, lakhs of investors should not be put to inconvenience and cost. Nor should the exercise become so gigantic as to lose focus on the few manipulators.

2.1.7 Significantly, fingerprinting is associated with identification of criminals and an act of invasion of privacy.

2.1.8 In this regard, it may also be mentioned here that there is an increasing concern about the uniqueness of biometrics-based IDs itself. According to the noted expert on biometrics, Mr. Simson Garfinkel, as extracted from his book "Database Nation: The Death of Privacy in 21st Century"... "Once a biometric is stored inside a computer, all of the security provided by biometric impression is lost. A stored biometric could easily

have been copied from another computer, rather than being directly measured. This is a critical distinction to understand when using biometrics. It is a distinction so subtle that it is frequently overlooked by the people implementing and using biometrics-based systems”.

2.2 Investors’ Concerns

2.2.1 Fingerprinting: Fingerprinting is perceived, by and large, as an invasion of privacy and often associated with identification of criminals and thus a humiliating experience. It also militates against a free market spirit. The Committee is not aware of fingerprinting being used in any country for identification of investors. There are also concerns about the security of fingerprints data.

2.2.2 Multiple IDs: Investors have questioned the need of yet another capital market ID besides DP Client ID and Unique Client Codes. This is in addition to the several IDs that a person has-PAN, Passport Number, Bank Account Number/s, Voter Identity and Driving License.

2.2.3 Cost: The cost of obtaining UIN of Rs. 300 is considered high by the investors, further compounded by hidden indirect costs like DD charges, travel/conveyance (multiple visits) etc. It is also argued by a section of investors that anything that becomes mandatory becomes “public good” and therefore, cannot become a pure commercial, profit-making operation.

2.2.4 Reach: The infrastructure and reach of Points of Service (POS) has been inadequate, leading to severe hardships and costs to the investors. For small investors living in small towns, to take MAPIN through biometric system, they have to travel to a closest district headquarter and they have to wait and incur costs. Moreover, the biometric system requires presence of the persons, unlike other systems, for taking IDs. This makes it practically difficult for several sections of the investing class like senior citizens, physically challenged persons etc.

2.3 Expansion of Investor Base

2.3.1 While on one hand, efforts are being made to broaden and deepen the capital market by motivating small investors to invest in capital market instruments, the biometric system of generating IDs militates against this broad national objective.

2.4 Information on Associates & Linkages

2.4.1 While MAPIN recognized the need to capture information about ‘associates’ (refers to family members, employees, etc.), it sought to do so through biometrics (and not through disclosures) and that too irrespective of whether the associates were investors or not. Accordingly, the initial MAPIN UINs were issued to associates also (including to minor children who were not even investors). However, due to the objections raised by the intermediaries and the consequent intervention of the Hon’ble Delhi High Court, the provisions of the Regulations were modified with the result that the key issue of linkages to associates (especially with the family members) got put on the backburner. Thus, many MAPINs have been subsequently issued without covering the associates at all-neither through biometrics nor through disclosures. This has also led to a peculiar situation of having two sets of MAPIN holders. There is also another problem with the data on associates - the present form C is required to be submitted not at the time of registration but at an unspecified later date, and many investors may not even go back to this form to fulfil their obligation.

2.4.2 The MAPIN form also does not seek information on the applicant’s existing capital market IDs like DP Client ID or UCC and as such, the database without these basic details may not be useful for conducting any linkages, studies or historical analysis.

2.5 SEBI-registered Intermediaries

2.5.1 The present approach and application form have also led to some amount of confusion because the focus is not just on the investors. It is also on the intermediaries and their employees, whether investors or not (there also exists a grey area regarding coverage of employees of intermediaries) and on creating employees’ profile database.

2.6 Listed Companies (Issuers)

2.6.1 Moreover, there is further confusion as the present form aims to cover not only the investor companies but also listed companies and promoter companies, whether they are investors or not. Incidentally, listed companies are yet to be notified.

2.7 Inventory of Investors

2.7.1 The objective of MAPIN of creating an inventory of all investors has also got diluted due to provision of several exemption categories, including cut-off limit for the small investors, and would be more so if the demand for exclusion of mutual fund investors is accepted. Looking at the present pace and the need to phase out exemptions, it may be several years before an all-investors database is built up.

2.7.2 An examination of the present dispensation exempting all investors who enter into transactions of Rs. 1 lakh or less from having a MAPIN or even raising this cut-off limit to provide relief to the small investors is very alarming. The data provided by NSE and BSE reveals that there are only 1.62 lakh and 0.76 lakh investors respectively whose single order entry was above Rs.1 lakh (during the period January – February 2005). This means that most of the investors who have been issued UIN may not fall in the presently applicable exempted category. If the present exemption of Rs.1 lakh cut-off limit was to continue, there would hardly be a need for any further registrations and only a very small investing population would stand covered. If the cut-off limit was raised to Rs. 5 lakhs or to Rs. 10 lakhs, the number of investors requiring MAPIN shall fall significantly. (see Annexure I)

2.7.3 Significantly, any cut-off limit shall exclude a large body of investors thereby preventing creation of an all-investors database. It shall also tempt manipulators to execute trades below the cut-off limit. On the other hand, brokers shall continue to insist on investors on providing UIN because there is no on-line system for calculating the value of a trade, and in case it exceeds Rs. 1 lakh, the broker does not wish to attract a penalty from SEBI for not obtaining the MAPIN ID from the investors.

2.7.4 There has been a demand to exclude mutual fund investors from the provisions of MAPIN since these are passive investors. This demand appears valid. However, such exclusion shall adversely affect the creation of the all-investors database.

2.8 Selection of POS

2.8.1 There have also been questions raised by several intermediaries about the selection process of POS and fears of losing client data, as most of the present POS are market participants.

2.9 Investor Profiles

2.9.1 MAPIN has not been designed to generate data on investors, their distribution summaries, their investment choices/ patterns and their geographical locations nor allow development of investor profiles, which may be useful to frame effective policies and processes.

2.10 Updation

2.10.1 The information that has been captured by MAPIN till now is not being updated, thereby weakening the database. For example, many individual investors must have changed addresses in the normal course, while thousands of employees at intermediaries must have changed jobs. As such, these investors will not be locatable, when required, at least at the address they have given at the time of registration. Due to lack of guidance, investors do not even know that the onus of notifying changes rests with them. The penalties on registrants for not informing changes are very huge ranging from debarment from the capital market to penalties extending to up to Rs.1.00 crore, and though these have till now not been enforced, the liability exists on the investors. (see Annexure II)

2.11 Validation

2.11.1 Despite nearly three lakh UINs having been issued, these have not been put to any use. Logically, as the stakes are high, all large investors must have obtained UIN

by now, as the risk and cost of exclusion from the market is very high. Consequentially, a majority of trades in the market is already being done by the MAPIN holders. Testing of the database should have been done to validate its usefulness, thereby also ensuring its acceptance.

2.12 Regulatory Actions

2.12.1 MAPIN aims to cover regulatory actions of SEBI to enable market participants to check the credentials of other participants before dealing with them (The work on this incidentally is yet to start). This information is now available at www.watchoutinvestors.com, that covers regulatory actions of not only SEBI but of several other regulators and, therefore, there now seems little need for duplication of efforts.

2.13 Conclusion

2.13.1 Substantive concerns of fingerprinting, cost and reach and the design of the present system which has resulted/will result in some missing/outdated information would defeat the objectives. The Committee, therefore, is of the view that the present system should not be continued. If continued, it would require major modifications to meet the objectives and would still not be able to address the investors' concerns. Moreover, if the exemptions approach is continued, the present system will end up covering only a small part of the total investing population, that would defeat the objective of creating an inventory of all investors.

3. SEARCH FOR AN ALTERNATIVE SYSTEM

3.1 Objectives

Before deliberating on alternative systems, the Committee first finalized the following objectives of a unique ID, which not only cover all the objectives of the present MAPIN but also meets other requirements.

3.1.1 Create a new unique ID for all investors, across all markets (primary market, secondary market) and across all forms of instruments (equity, debt, derivatives and mutual funds) in order to

a) Arrive at the number of investors (and investing households), their distribution summary and their geographical locations and develop investor profiles in order to frame effective policies and processes. It is very important to have a database of all investors across all instruments. Today, we do not know how many investors does India have...70 lakh or 4 crore (as claimed by different bodies, and the reality being that there are only about 70 lakh, and that too non-unique depository accounts across both depositories and that there are only 24 lakh non-unique UCCs at NSE and BSE), We do not know how many of these are 'small investors'. Or how many invest only in equity or only in mutual funds or how many in both? It is also not known where the investors are located or what is their portfolio or levels of activity or buying patterns? Almost all investors today are unprofiled entities. A major challenge today is to develop and deliver focussed policies, products and services as also simple communication to clearly identified targeted audience. This is important because without clear information on the audience, any policy/service/communication effort shall have only a marginal impact, as there may be a serious mismatch between the offer and its recipient's needs.

b) Identify investors who have taken large exposures in the market and/or who are trading through multiple brokers.

c) Enable adequate risk containment measures such as imposition of margins, trading or exposure limits etc.

d) Assist the government with insights on investors' profiles for designing focussed taxation policies for the capital market.

e) Assist in conducting opinion polls and surveys on a wide variety of issues

3.1.2 Enable SEBI's surveillance system to identify linkages between investors in cases of concerted/unusual trades. The new unique ID, through disclosures, shall help to establish linkages among investors and thereby establish concerted trades within a group of persons (relatives and associates). It should be recognized that most manipulators do not trade any more in their own names, specially after the dawn of electronic trading and depositories, and they would rather trade through

- i) relatives, associates, investment companies/other entities or employees
- ii) friends, neighbours, suppliers, customers
- iii) benami accounts
- iv) dabba accounts

The links with i) can be easily established and the new system is designed in that direction. This itself shall be a significant achievement as that shall, for reasons of convenience of the manipulators, constitute the largest segment of traders. For ii) and iii), the new system's recommendation of incorporation of bank accounts in the database shall help establish a trail and will assist the surveillance system to identify any patterns that need to be investigated. As far as iv) is concerned, the same can be tackled only through surveillance.

The argument that all investors and associates should be covered through biometrics because it is not possible to ascertain who would later turn out to be a manipulator does not stand to reason. Moreover, the present system in any case is not including linkages in most cases (while the new system is proposing the same). Even for tracking down market manipulators, instead of the present design that is reactive (i.e. after a fraud is reported or a deal appears suspect), the new system shall allow for a proactive

investigation. Whenever any unusual pattern is thrown up by the system, the investor IDs integrated with surveillance shall be able to identify entities and their linkages.

3.1.3 Enable investors to make investments and trade through a single ID. The investors would find this very helpful as currently they are required to quote various numbers/IDs.

3.1.4 Enable intermediaries to check the credentials of investors/other intermediaries

3.1.5 Create a database of financial professionals employed at the intermediaries. This database would assist SEBI in not only taking a stock of the competency levels, but also find gaps to be filled by education/ training.

3.1.6 Create a database of listed companies. Presently, there is no consolidation of such information and it is lying scattered at various exchanges. A consolidation would not only be of help to SEBI but also hugely to the investors and other market participants. To begin with, this database should cover the following for each company:

- Addresses of registered offices, head offices and plants
- Office and residence addresses of all promoters and directors
- Phone numbers, Fax numbers, Email IDs and website addresses
- Name of Compliance Officer and contact details
- Registrar/share transfer agent of the company with contact details
- Capital History
- All name changes of the company

3.2 Preamble to Unique Investor ID

3.2.1 The Committee is of the view that the entire orientation and approach should be a positive one.

3.2.2 The Committee is concerned about the declining participation of the small investors in the market and feels impediments of this kind shall only deter them further. Today, anyone who wants to sell an equity share has to have a DP account for which the person does not have to be physically present anywhere. The DP account is well

accepted, spread all across the country, is efficiently organized and managed. The Committee, therefore, is of the opinion that the DP system should be the base for building a new ID. The objective of the system should really be of creating an all-investors' database, one of the focus areas of which would be to track market miscreants.

3.2.3 The Committee is unanimous that the capital market requires a unique ID for each participant for a variety of purposes. It is mindful of the popular belief that a fingerprint-based ID provides a unique ID. The key question is whether the unique ID for the purposes for which it is sought to be created can not be obtained through a non-biometrics based system, which shall also address the concerns of huge cost, effort and mental resistance in covering millions of small investors and their associates through a biometrics-based ID system, and also the huge challenge of continually updating such a database in an environment where most persons are not electronically connected (including many IPO investors who do not have a broker).

3.2.4 The review of existing MAPIN initially led the Committee to suggest only some modifications. However, with revelations of huge deficiencies, the Committee decided to explore the possibility of an alternative new system for creating unique IDs, which will address the core concern of duplicate IDs that can be issued/ obtained.

3.2.5 Various alternatives of creating a system to generate a unique ID were discussed by the Committee. These were:

- A biometrics-based MAPIN for all investors
- A biometrics-based MAPIN for all investors and for all their associates
- A biometrics-based MAPIN for all investors plus only disclosures about their associates
- A biometrics-based MAPIN only for selected investors (for example, above a threshold)
- A biometrics-based MAPIN only for selected investors (for example, above a threshold) and for all their associates
- A biometrics-based MAPIN only for selected investors (for example, above a threshold) plus only disclosures about their associates

- A combination of biometrics-based MAPIN for the corporate sector and the intermediaries and a non-biometrics based MAPIN for small investors plus only disclosures about the associates of all above
- A non-biometrics based MAPIN for all market participants, with only disclosures about their associates

3.3 Proposed New System for Creating Unique ID without Biometrics

3.3.1 While exploring various options, the Committee decided to understand the systems presently used by the financial sector worldwide to create unique IDs. This led the Committee to the dedupe software which is being extensively used for many years for creating unique client IDs by the financial sector across the world as well as in India for credit cards, loans etc. CIBIL is also using this software in India to aggregate data of individuals across various banks and credit card companies. The dedupe software essentially uses a combination of parameters, in one or more databases, to arrive at unique identities.

3.3.2 The Committee sought presentations from four leading software firms (TCS, Mphasis, Nucleus and Polaris) who cater to the financial sector to understand the feasibility of creating non-biometrics based IDs. Though all these firms were unanimous that the biometrics-based ID is truly unique, it was also agreed by all of them that unique IDs can also be generated through the dedupe software and other related tools with a very high degree of reliability. It was also pointed out that if unique IDs can be created for corporates without biometrics by using the dedupe software, the same is also possible for individuals. The key, of course, lies in the number of parameters available; the larger the number, the better would be the outcome. As the present captured data does not have a comfortable number of parameters, investors would be required to provide the same through a new form. Since the key objective of biometrics is to arrive at uniqueness (as compared to using biometrics to enable a trade which in any case is not being planned as that shall then require all investors to physically visit a trading terminal), the objective of uniqueness can be met without biometrics.

3.3.3 The risks and impact of duplicate IDs through this software are minimal and within tolerable limits. Moreover, if a person does obtain a duplicate ID and deals with multiple

brokers, the design of the surveillance system should be such as to be able to identify if the same person was behind the deal/s as all deals can be tracked to his depository account, his broker, his PAN number and his bank account. In any case, if a person obtains duplicate IDs under the new system, he would do so in connivance with the DPs (who are required to verify the proof of identity) and more so at the risk of making wrong disclosures punishable with huge financial penalties and debarment from the capital market.

3.3.4 After evaluating all options, the Committee has reached a conclusion that to meet the desired objectives, a non-biometrics system is indeed feasible.

3.3.5 The Committee, therefore, recommends that a new system should be introduced which is able to create an all-investors database utilizing the existing information resources/ infrastructure, including the data already captured by the MAPIN system, in an effective, cost-efficient, investor-friendly, easily updateable manner and which can also incorporate some new critical features including information on associates. The new system should also be designed to ensure that this is the last time a capital market ID shall be issued.

3.3.6 The Committee also took the view that the fact that several UINs have already been issued should not act as a constraint because only a small population of existing investors- about three lakhs - has been allotted UINs, and, therefore, there is a need to think long term for the millions of present uncovered investors as well as those who shall keep joining the fold. The existence of the infrastructure and its costs should also not be a constraint. The Committee proposes that the database and infrastructure already created for MAPIN should be put to maximum use in the new system.

3.3.7 A potential argument against the new system could be that it would require a massive exercise of getting the forms filled from millions of investors. In this regard, it may be mentioned that the present MAPIN form too would be required to be filled up (both the individual information as well as the linkages information) by almost the same millions of investors (as only a small number of investors have been covered till now) and would additionally require the investors to travel to the POS. Moreover, even the persons who have already been issued a UIN would be required to fill the forms for not

only obtaining updated information (which in many cases might have by now become outdated) but also to get the critical information on linkages which is presently missing in a very large number of cases.

3.4 Execution

3.4.1 SEBI should select a firm for developing the dedupe software for generation of unique IDs. This software should then be handed over to the Implementing Agency (IA) to be appointed by SEBI. The IA shall undertake the exercise of combining the databases and then generating the new Unique IDs (and cards with photograph and signature of registrant) to the existing investors. The IA shall also be entrusted with the task of assigning unique IDs to new investors and for maintaining and updating the database.

4. COVERAGE AND IMPLEMENTATION OF THE NEW MAPIN SYSTEM

4.1 The Approach

4.1.1 To arrive at an effective policy and implementation, different parameters and processes for the three categories (issuers, intermediaries and investors) have been clearly defined. The Committee also suggests a phased implementation of the project. The new system also integrates the existing data at depositories, mutual funds and brokers, and further makes it integratable with the surveillance system.

4.2 Phase I: Capital Market Unique ID covering Domestic Investors in Debt, Equity and Derivatives Market

4.2.1 The new system is based on the reality that every investor has an electronic account and as such, the investors' data can be used and built upon to assign unique IDs through the time-tested dedupe software.

4.2.2 The investors covered shall be investors, whether they are individual investors or are companies / entities (including intermediaries and their employees, companies, trusts, firms, HUFs, banks, primary dealer etc). This essentially means that any one who has a depository account is an investor. In the case of a company that is an investor and entities like banks, primary dealers etc., the individuals who are authorized to transact on behalf of the entity shall also be covered. However, a listed company, or a bank or a primary dealer etc. if it does not trade in its own name and, therefore, does not have a depository account, shall not be covered under this system.

4.2.3 Accordingly, for the capital market investors, the existing database of the two depositories shall be used as a starting point, integrating also the UCC and the extant MAPIN data. The information available with the depositories as already captured from the depository account opening form or as updated subsequently with the depositories by the investors is available in electronic form. Significantly, information available under some key parameters is reliable, as the depository account opening form

ensures that the concerned depository participant has verified a person's identity through various proofs of identity. On the other hand, because of the need to receive account statements, ECS credits etc, there is enough reason to believe that the information, at least for most of the active investors, is current and valid.

4.2.4 Such parameters shall be extracted from these files as have been mandatorily required. However, an initial study of these parameters shows that these may not be enough to be able to proceed with generation of the unique ID right away. In view of this, as a first step, an interim unique file will be generated through the dedupe software, after combining the files of the two depositories.

4.2.5 All beneficiary account holders shall be requested to update their current information as well as provide information on additional mandatory fields. In addition, detailed information shall be sought on associates as the Committee recognizes that most manipulators do not trade any more in their own names, specially after the dawn of electronic trading and depositories, and they would rather trade through relatives, associates, investment companies/other entities or employees. It is, therefore, important to create linkages to associates in the system, which shall be achieved through disclosures. The system shall also seek information on the present capital market Ds - DP Client IDs and UCCs. It shall also seek information on bank account numbers that the investor will use for capital market operations (as these will assist in better audit trail). Accordingly, a draft of the new form has been designed (Annexure III).

4.2.6 The first part of the new form shall have the key information pre-printed as is already obtained in the new system through the combined depositories' databases. Wherever uniquing is arrived at with certainty through the initial dedupe exercise, a single form shall be printed for even such investors who have several depository accounts. The second part of the form shall require investors to disclose personal details-covering both existing as well as additional parameters. This will help the system achieve current updation. The third part of the form shall require disclosures about associates (about only such associates who already have a DP Client ID and/or who have already been assigned a MAPIN number under the extant system). A recent photograph shall also be required to be submitted.

4.2.7 The new form shall be sent by the IA to all DPs/ brokers asking them to have these updated/filled by the investors. In both options, an investor who deals with multiple DPs/brokers may receive several forms. This shall be taken care of by giving clear instructions on the form that an investor should fill this form only once.

Option 1:Using DPs

The benefit of using DPs is that an investor has to be in touch with his DP because the DP is the front-end custodian for his holdings and he receives the statement of accounts from the DP and also pays various kinds of depository charges to the DP, even when he is not transacting in the market (including many IPO investors).

Option 2: Using Brokers

The benefit of using brokers is that an investor is more actively in touch with his broker than with his DP for transacting. However, a big negative is that there may be several investors who either do not trade at all and thus have no broker to work with (including several IPO investors) or they deal with sub-brokers.

The Committee recommends using the DP network.

4.2.8 Moreover, since the new system proposes to use the existing infrastructure of DPs for interfacing with the investors for filling up the new forms, there shall be no more any concerns of reach. In any case, the registrants shall be encouraged to file the form electronically through the net, thereby saving the system to that extent from a huge data entry exercise.

4.2.9 A deadline shall be prescribed for the investors to return the new form duly completed. Only such investors who submit the form before the specified date shall be allocated the new ID and the new ID shall become mandatory for trade after another specified date. This will ensure that all trades in the market are done only by ID holders,

thereby also allowing the system to track them down when necessary. This deadline system shall ensure that all active investors are covered as the cost of exclusion from the market for them will be very high. The existing investors who miss the deadline would be allowed to come into the system after payment of a penalty and would be subjected to the same process of filling up the preprinted form.

4.2.10 Once the forms are received back from the investors, the combined database file shall be updated and the new information received from the investors (additional parameters, linkages etc.) shall be created. The dedupe software shall then be used to generate unique identities. Investors who are already holding MAPINs shall retain the same ID number and they shall be able to use the existing card for identification. The other investors shall be issued new ID cards, which shall also have their photograph and signatures.

4.2.11 Joint depository accounts shall not be assigned a unique ID, and the individual IDs of the joint holders shall be required to be quoted in the transactions. Investors shall still be allowed to have multiple DP accounts but all such accounts shall be linked to the new ID number.

4.2.12 While transacting, only the DP Client ID shall be required, and the system shall itself import the relevant MAPIN ID. As such, no change shall be required in the existing depository software/system, except for provision of the fields of MAPIN ID and UCC.

4.2.13 All new investors would be required to fill in the MAPIN form at the same time when they open a depository account or a trading account with a broker, thus saving them from duplication of efforts. The completed MAPIN forms shall be forwarded by the depository participants to the IA. As such, the MAPIN application shall be simultaneous, avoiding inconvenience to the investors and also save the system from additional infrastructure/efforts. This new form shall be processed by the IA for allocation of the unique ID. In doing so, the new database shall first check for duplication through the dedupe software, thereby easily detecting if a person is trying to obtain a duplicate ID.

4.2.14 The new system is based on proof of identities and also on disclosures. While adequate care needs to be exercised on verifying proof of identities, heavy penalties should be prescribed for wrong disclosure which shall also act as a deterrent. As such, the incidence of duplicate IDs can be brought down to a very minimal level. If there are still some cases where a person is allocated a duplicate ID, the onus of this shall fully rest with the investor as it would be made very clear that having two IDs is illegal and would attract a very heavy penalty. In any case, the number of such duplicate IDs and the consequent damage shall be insignificant, compared to the cost and effort of creating the biometrics-based MAPIN.

4.3 Phase II: Domestic Investors in Mutual Funds

4.3.1 The new system is based on the reality that every mutual fund investor has a folio account with a mutual fund or with its registrar. The information with the mutual funds as captured from the mutual funds application form or as updated subsequently by the investors is available in electronic form. Because of the need to receive account statements, ECS credits etc, there is enough reason to believe that the information, at least for most of the active investors, is current and valid. The database on mutual fund investors shall be developed by combining the existing electronic records of investors with the mutual funds into one file and then merging it with the unique file created under the depository system.

4.3.2 The investors covered here shall be investors, whether they are individual investors or are companies / entities (including intermediaries and their employees, trusts, firms, HUFs, banks, primary dealer etc). This essentially means that any one who has a mutual fund account is an investor. In the case of a company that is an investor and entities like banks, primary dealers etc., the individuals who are authorized to transact on behalf of the entity shall also be covered. However, a listed company, or a bank or a primary dealer etc. if it does not invest in mutual funds and, therefore, does not have a mutual fund account, shall not be covered under the system.

4.3.3 The information available with all the mutual funds shall become the starting base for this exercise. Such parameters shall be extracted as are mandatorily required by the mutual funds. The data captured in the MAPIN system till date as well as unique IDs

created through the depository system shall be integrated with this file. An interim unique file will be generated through the dedupe software, after combining the files of all the mutual funds.

4.3.4 A new form shall be designed. The first part of this form shall have the key information pre-printed as is already obtained in the new system through the combined mutual funds database. Wherever uniquing is arrived at with certainty through the initial dedupe exercise, a single form shall be printed even for such investors who have several mutual fund accounts. The second part of the form shall require investors to disclose personal details-covering both existing as well as additional parameters. This will help the system achieve current updation. The third part of the form shall require disclosures about associates (about only such associates who already have a DP Client ID and/or who have already been assigned a MAPIN number). A recent photograph shall also be required to be submitted.

4.3.5 The new form shall be sent by the IA to all the mutual funds asking them to have these filled and updated by the investors. Investors who wish to file this electronically shall be encouraged to do so.

4.3.6 The form shall state that an investor shall fill up this form only once, even if he is dealing with several mutual funds. If an investor has already submitted this form under the capital market system, the investor would still submit the form after filling only the ID number that has already been assigned to him.

4.3.7 A deadline shall be prescribed for investors to return this form duly completed. It will be stated that only such investors who have submitted the form before the specified date shall be allocated the new ID and that the new ID shall be mandatory for trade after another specified date. This will ensure that all trades in the market are done only by MAPIN holders, thereby also allowing the system to track them down when necessary. This deadline system shall ensure that all active investors are covered as the cost of exclusion from the market for them will be very high. The existing investors who miss this deadline would be allowed to come into the system after payment of a penalty and they would be subjected to the same process of filling up the preprinted form.

4.3.8 Once the forms are received back from the investors, the combined database file shall be updated and the new information received from the investors (additional parameters, linkages etc.) shall be created. The data of the investors who have indicated that they already have been assigned a capital market ID shall be segregated. For the balance file, the dedupe software shall then be used to generate unique identities. Investors who are already holding MAPINs shall retain the same ID number and they shall be able to use the existing card for identification. The other investors shall be issued new ID cards which shall also have their photograph and signatures.

4.3.9 Joint mutual fund accounts shall not be assigned a unique ID, and the individual IDs of the joint holders shall be required to be quoted in the transactions. Investors shall still be allowed to have multiple mutual fund accounts but all such accounts shall be linked to the new ID number.

4.3.10 While transacting, only the folio number shall be required, and the system shall itself import the relevant MAPIN ID. As such, no change shall be required in the existing mutual funds software/system except for provision of the field of MAPIN ID.

4.3.11 All new investors registering with the mutual funds after a specified date shall be required to submit the new form. The new form shall be mandated to be filled at the time of opening of the mutual fund account itself and the mutual fund shall be required to send the completed MAPIN form to the IA. As such, the MAPIN application shall be simultaneous, avoiding inconvenience to the investors and also save the system from additional infrastructure/efforts. This new form shall be processed by the IA for allocation of the unique ID. For allocating IDs to new applicants, the new database shall first check for duplication through the dedupe software, thereby easily detecting if a person is trying to obtain a duplicate ID.

4.3.12 In order to ensure that authentic information is provided by the registrant in the form, there should be a deterrent in the form of a heavy penalty for wrong disclosures. As such, the incidence of duplicate IDs can be brought down to a very minimal level. If there are still some cases where a person is allocated a duplicate ID, the onus of this

shall fully rest with the investor as it would be made very clear that having two IDs is illegal and would attract a very heavy penalty. In any case, the number of such duplicate IDs and the consequent damage shall be insignificant, compared to the cost and effort of creating the biometrics-based MAPIN.

4.3.13 Depending upon the feasibility, the exercise of assigning unique IDs to the capital market investors as well as the mutual fund investors can be combined, instead of one after the other.

4.4 Phase III: Intermediaries

4.4.1 Since the objective of creating a database of intermediaries is entirely different and there is also a need for capturing data of all persons employed with the intermediaries, all intermediaries as well as all their promoters/ directors/ employees shall be covered by this system, whether they are investors or not.

4.4.2 Accordingly, in the case of intermediaries, the following shall be the coverage:

- a) intermediary shall be assigned unique ID
- b) in case the promoters are individuals, the promoters of the intermediary shall be assigned unique ID, and there shall be a disclosure about their associates
- c) in case the promoters are companies, the promoter company and the promoters and directors of the promoting company shall be assigned unique ID, and there shall be a disclosure about their associates
- d) directors of the intermediary shall be assigned unique ID, and there shall be a disclosure about their associates
- e) all employees at the intermediary shall be assigned unique ID, and there shall be a disclosure about their associates

4.4.3 All intermediaries and such of their employees who already have a depository account or a mutual fund account would have been covered by Phase I & Phase II. The intermediaries shall then be asked to obtain unique IDs for all their uncovered employees/associates.

4.4.4 To integrate the data further, the ISIN codes and the CIN codes of the intermediaries, if any, shall also be captured by the system.

4.4.5 The employees' database shall be extended, through a separate form, to cover the qualifications and experience of each employee to be able to create a financial professionals database. This database would assist SEBI in not only taking a stock of the competency levels, but also find gaps to be filled by education/ training.

4.5 Phase IV: Listed Companies (including New Issuers)

4.5.1 In the case of listed companies, including new issuers, the following shall be the coverage, irrespective of whether they are investors or not:

- a) company shall be assigned unique ID
- b) in case the promoters are individuals, the promoters of the company shall be assigned unique ID, and there shall be a disclosure about their associates
- c) in case the promoters are companies, the promoter company and the promoters and directors of the promoting company shall be assigned unique ID, and there shall be a disclosure about their associates
- d) directors of the listed company shall be assigned unique ID, and there shall be a disclosure about their associates
- e) personnel at the listed company who are involved with securities transactions shall be assigned unique ID, and there shall be a disclosure about their associates

4.5.2 All listed companies and such of their entities/persons who already have a depository account or a mutual fund account would have been covered by Phase I and Phase II. The listed companies shall then be asked to obtain unique IDs for all their uncovered persons/associates.

4.5.3 To integrate the data further, the ISIN codes and the CIN codes of the listed companies shall also be captured by the system.

4.5.4 The listed companies database shall also include addresses of registered offices, head offices and plants, office and residence addresses of all promoters and directors, phone numbers, fax numbers, email IDs and website addresses, name of compliance officer and contact details, registrar/share transfer agent of the company with contact details, capital history and all name changes of the company.

4.6 Phase V: Resident Personnel of Foreign institutional investors

4.6.1 It is widely accepted that foreign investors are now playing a dominating role in the Indian capital market. It is therefore imperative that these investors are also covered well by the new system. On the one hand, all FIIs registered by SEBI should be assigned the new unique ID. This should be extended to all sub-accounts of these FIIs, which is akin to having an ID for the mutual fund investors, who operate through a fund. There may be additionally a need to register the resident personnel of the FIIs. The methodology and forms for providing IDs to the FIIs, their sub-accounts and their resident personnel may be appropriately designed.

4.7 Integrating Existing MAPIN

The existing MAPIN database and system will be integrated into the new system. To maintain consistency, the number generation logic and format/series shall be the same as in the existing MAPIN database. MAPIN IDs already issued shall continue to remain valid. The name of the scheme will remain MAPIN. The new form shall be sent to all existing MAPIN holders in order to obtain information from them on additional fields and on associates.

4.8 New Features in the New Form

4.8.1 The new form shall incorporate the existing information as well as seek information on additional parameters. The draft of the new form is enclosed as Annexure III. (This is only indicative and the format, spaces etc. would be finalized later). This form has presently been designed only for Natural Persons - individual investors as also persons at intermediaries, investing companies and listed companies. This form, among others, has the following new features:

- **Relatives and Associates**

Based on the premise that many manipulative trades are done through relatives/ associates, a disclosure on such entities is proposed, but shall be limited to only such entities who already, as on the date of application, have the new MAPIN ID. Such relatives have been included as are defined by The Companies Act and by the SEBI Insider Trading Regulations. The Committee recognized the practical difficulties with regard to capturing information on date of birth and MAPIN/DP numbers of some of the relatives in the list. Hence, SEBI may take an appropriate view on the same. Information shall also be sought on the individual's links/association with corporate entities. (Incidentally, the present MAPIN form also asks for disclosures on relatives- though only a few of them- and associates and their MAPIN IDs, and not at the time of application but at a later stage).

- **Promoters' Definition**

While examining the coverage of entities related to an investor, the issue of promoters' definition was discussed and it was noted that there are different definitions in various SEBI regulations. The Committee felt that a re-look at the promoters' definition may be made by SEBI to make the MAPIN database more relevant for the purposes of investigations.

- **Bank Account Numbers**

As per the present law, all payments of above Rs. 20,000 have to be made by cheques only. As such, all transactions can be traced to a bank account with the requisite accountholder-photograph-address proof requirements in place. This has, however, not been of much help in establishing audit trails/identifying ultimate beneficiaries. This is also because of people operating multiple accounts within a bank and across banks and many of these accounts may not even be disclosed in the Income Tax returns, though these may be used for capital market operations.

The new application form shall have disclosures of all such bank account numbers that the investor shall use for capital market operations, including

for ECS, whether in single name or in joint names. Whenever the system locates a payment by an investor from a bank account different from the ones disclosed by him, it shall become a matter of concern and appropriate action, including investigations, for this could be considered. (A sample action could be a penalty in terms of a percentage of the amount paid through such accounts, where amounts involved are below a specified limit).

The disclosure of bank account numbers shall help the audit trail and also help in tracking benami transactions. In the present system, a person (non-intermediary) can still operate 100 shell companies or use 100 employees, each with a different MAPIN or do multiple transactions below the cut-off limit. Numerous concerted transactions shall still not be traceable to that person, as the transactions shall appear to be from hundreds of different and apparently unrelated entities. It shall take a determined effort to probe deeper into the second and deeper layers of information and unravel cross holdings to discover the common manipulator.

- **DP Client IDs**

The new application form shall have disclosures of all DP Client IDs of the investor, whether in single name or in joint names.

- **Unique Client Codes**

The new application form shall have disclosures of all UCCs that an investor has been allotted by various brokers, whether in single name or in joint names.

4.8.2 The new form as such shall establish a link between the MAPIN ID and the other existing capital market IDs - DP Client ID and UCC-and therefore allow for historical analysis and investigation when necessary. It will also lead to quoting of only one ID - the DP Client ID - in the trades.

4.9 Updation

4.9.1 Any database is of value only if it remains continually updated and, therefore, the Committee is proposing a simple, cost-effective updation system. In the case of investors, the obligation for updation shall rest entirely with him. The updation shall be provided by them to their DPs/brokers on occurrence of a change and in any case every 6 months (through an updation from which the DP/broker would give out to all their investors) failing which his trading shall be disabled.

4.9.2 An updation form shall be required to be submitted by the investor to his DP who would then forward it to the IA. In the case of intermediaries and listed companies, the updation form shall be submitted by them directly to the IA. The updation forms shall also be available for filing on the Internet.

4.9.3 The photograph shall be updated every 10 years, upon which a new card shall be issued.

4.9.4 A system can also be developed where it becomes mandatory for companies and intermediaries to report to the IA the details of undelivered dividend warrants, letters etc., to enable updation of the database.

4.10 Data Entry/Data Capture

4.10.1 The registrants shall be encouraged to file the application form electronically though the net, after providing them with a password (which shall be their DP Client ID). This shall save the system from a huge data entry/ verification exercise. This provision of electronic filing shall help in covering all corporates, all intermediaries and a large number of investors. Paper form, of course, shall be made available for investors who are not net-enabled.

5. OTHER MATTERS

5.1 Advertising/Publicity of the New System

5.1.1 One of the reasons why the present MAPIN has met with resistance is the lack of investor education about this system. Virtually no advertising was done, neither any investor seminars were conducted. This has also led the investors not knowing their rights and obligations under the new system. It may be recalled that when the depository system was launched, it was supported by a huge investor education programme.

5.1.2 The new system should be widely advertised to make the investors familiar with the same. Subsequently, advertisements relating to the deadlines should also be released.

5.1.3 Investor seminars should also be conducted by SEBI/IA/AMFI/stock exchanges/investor associations to educate the investors about the new system, highlighting that the new system is in fact a huge simplification of the existing MAPIN system.

5.1.4 A Dos and Don'ts booklet should be handed out to each investor at the time of issuing him the ID card. This booklet for example, can cover the following:

- Places where to quote this number and the effective date
- Notifying change of address or any other particulars
- Notifying dissociation with an organization
- Warning that a second MAPIN UIN is an offence, and describe the penalties thereto
- Action to be taken on loss of the MAPIN card and how to get a duplicate card

5.2 Penalties for Wrong Disclosures

5.2.1 The new system is based on proof of identities and also on disclosures. While adequate care needs be exercised on verifying proof of identities, a very heavy penalty should be prescribed for wrong disclosures, which shall also act as a deterrent.

5.3 Exemptions

5.3.1 In order to create an all-investors database, the new system should not provide for any exemptions –neither a cut-off limit nor by type of investors (individual/corporate) or by type of instrument (equity/debt/mutual funds) or by segment (cash/derivatives) or by type of market (primary/secondary) or by physical condition (old/ physically challenged/ seriously ill persons) or by location (remote area).

5.4 Costs

5.4.1 Though quotations have not been called for, it is estimated that the cost involved in generating the new unique ID, maintenance of database, issuance of cards etc, shall be significantly lower than the present system. Since the main objective of MAPIN is aimed at regulation and at creation of a single database of investors, issuers and intermediaries, the Committee is of the view that SEBI could consider bearing the cost. However, if necessary, a very nominal fee may be levied on the applicant.

5.5 Scheme Name

5.5.1 The name of the new scheme shall remain MAPIN.

5.6 Discontinuation of Fresh Registrations

5.6.1 Continuing the registrations under MAPIN in its existing format may be of limited use and, as such, till a final view is taken on MAPIN by SEBI, all fresh registrations and the need for mandatory disclosure of UIN may be suspended forthwith.

5.7 Constitution of a Technical Group

5.7.1 Since database design is a highly technical subject, a technical group may be formed by SEBI to examine the implementation feasibility, cost, logistics and schedule involved in creating the suggested database.

5.8 Acknowledgements

5.7.1 The Committee acknowledges the contributions made by various fora namely ANMI, DPAI, IGF, ASSOCHAM, FICCI and CII as well as members of the public who submitted their views on the subject. The Committee places on record its appreciation for the assistance rendered to the Committee by Shri V.S. Sundaresan, General Manager, SEBI and Shri Narendra Rawat, Asst. General Manager, SEBI.

Jagdish Capoor

Chairman

Prithvi Haldea

A.P. Kurian

Deena Mehta

A.K.Narayan

Members

23rd June, 2005

Annexure I

TRADE & INVESTORS DATA FROM STOCK EXCHANGES AND DEPOSITORIES

(Period Jan 2005 to February 2005)

Capital market Segment - NSE

	Trade order of value of Rs 1 lakh and above	> Rs 5 lakh	> Rs 10 lakh	> Rs 15 lakh
Total No of distinct Unique Client Codes (UCC)	1,61,777	32,783	15,653	10,341
Distinct Unique Client Codes (UCC) of individual investors.	1,41,337	21,944	8,041	4,318

Capital market Segment - BSE

	Trade order of value of Rs 1 lakh and above	> Rs 5 lakh	> Rs 10 lakh	> Rs 15 lakh
Total no. of distinct unique client codes (UCC) for the trade order	Jan-65,276	13,280	6,363	4,179
	Feb-76,583	15,738	7,738	5,174
Total no. of distinct unique client codes(UCC) of individual investors for the trade order.	Jan-63,716	11,604	4,830	2,817
	Feb-74,998	14,014	6,140	3,731

Derivatives Segment - NSE

	Trade order of value of Rs 1 lakh and above	> Rs 5 lakh	> Rs 10 lakh	> Rs 15 lakh
Total No of distinct Unique Client Codes (UCC)	80,242	57,810	25,075	17,314
Distinct Unique Client Codes (UCC) of individual Investors.	72,765	51,509	22,732	13,764

The above data is on the basis of the details uploaded by the trading members in UCI data base. Wherever the category of the client is not uploaded by trading member such clients are considered as individual investors.

Segment & Category wise Unique Client Codes

Category			
	Capital Market Segment-NSE	Capital Market Segment-BSE	Derivatives Segment -NSE
Individual	16,80,083	7,74,002	7,28,504
Mutual Fund	16,891	12,143	1547
Body Corporate	43,065	20,828	11,902
Non Tax Paying entity	139	N.A	18
HUF	N.A	15311	
FII	N.A	7614	
Others	63,070	11041	19,186
Total	18,03,248	8,40,939	7,61,157

Except for FIIs & mutual funds, UCC are given by brokers. The same clients may have different UCC for all the brokers he deals with. As per NSE if by mistake, a broker gives a wrong UCC while entering a trade and later corrects it, the database would have 2 records of UCC. These are error records. The exchanges are not aware how many error records are there in the database.

Depository Accounts - Body Corporates

Category		
	CDSL	NSDL
Body Corporate	8087(includes FI and FII)	59,105
Mutual Fund	681	1,355
Trust		5,571
FI		154
FII		2,181
Total	8,786	68,366

Number of Companies

(as on October 31, 2004)

Category of Companies	Number of Companies
Companies Limited by Shares	6,61,371
Guarantee Companies	3,354
Unlimited Liability Companies	496
Total	6,65,221

Source : Website - Ministry of Companies Affairs

DATA UPDATION- SOME ISSUES IN THE CURRENT MAPIN SYSTEM

Regulation 17(1): “Every person who has been allotted a UIN shall intimate the changes, if any, in the particulars submitted by him in the application to DSP in such electronic or other manner as may be prescribed by the Board, within 30 days of occurrence of change.”

17(2): “Every intermediary shall exercise due diligence to satisfy itself that its clients, have complied with regulation 17(1).”

The investing population is a mobile population. People change jobs, addresses, telephone numbers, etc. Until a system is put in place for continuing updation, the database will become obsolete very fast and again tracking of persons would become very difficult. Since the process of updation is not clear to most people, we are probably already at a stage where the database is not uptodate.

The onus of notifying changes should rest with the registrant and does rest with him as per the Regulations, but he should be clearly told so. The onus of informing changes is also on the intermediary as per the Regulations. What systems/processes have been put at the intermediaries' end to ensure this? Also has the method of informing changes been prescribed by SEBI?

Part C of Form B is for notifying Dissociation and the onus for this is on the intermediary. There is also an onus on the individual as required under Part C of Form A. Is this not duplication of efforts?

Also, for notifying changes, the same format of Application Form is required to be used and submitted as for a new application (Form A Part A and Form B Part A). Is the person required to fill the complete form all over again even if there is a change, for example, only in the address or in the telephone number? Does he have to all over again also submit proof of identity etc?

Regarding the penalty for not notifying changes, as per the Regulation, action will be taken by SEBI under sub-section (4) of Section 11 of the SEBI Act. According to this sub-section, SEBI may take any of the following measures:

- a. suspend the trading of any security ;
- b. restrain persons from accessing the securities market and prohibit any person associated with securities market to buy, sell or deal in securities;
- c. suspend any office-bearer of any stock exchange or self-regulatory organization from holding such position;
- d. impound and retain the proceeds or securities in respect of any transaction ;
- e. attach, after passing of an order on an application made for approval, by the Judicial Magistrate one or more bank account or accounts of any intermediary or any person associated with the securities market;
- f. direct any intermediary or any person associated with the securities market in any manner not to dispose of or alienate an asset forming part of any transaction which is under investigation.

and/or

debar the person/entity from acting in any capacity in any security market related transactions

and/or

such other action as may be deemed appropriate by SEBI.

and

action will also be taken by SEBI under clause (b) of Section 15A of the Act .According to this, if any person fails to file any return or furnish any information, books or other documents within the time specified therefor in the regulations, fails to file return or furnish the same within the time specified therefor in the regulations, he shall be liable to a penalty of one lakh rupees for each day during which such failure continues or one crore rupees, whichever is less.

The penalties as described above are very severe.

The fact is that a large number of persons may already be in default and face the prospects of penalties by SEBI.

To avoid defaults in notification of changes, there should be some point of action where the investor is automatically obliged to notify changes. Since the broker is electronically connected, he would be the best point for the updation mechanism.

Since the procedure for updation is not well known, and since a large number of people are already in default, SEBI should come out with an exemption scheme for such defaulters and make the requirement for notifying changes mandatory from a given date, after duly advertising the same.

Draft
THE SCHEDULE

[See regulation 12 of SEBI [Central Database of Market Participants] Regulations, 2003]

FORM A : APPLICATION FORM FOR NATURAL PERSONS

Each individual should submit this form only once to the DP, even in case of multiple DP accounts.

Declaration

By signing these forms, the individual declares that the information given herein is true and correct and that the concerned authority shall be informed of any changes forthwith.

PART A – PRE-PRINTED

DP ID No.	DP Client ID No.	MAPIN UIN
Name of Account Holder		

PART B - PERSONAL DETAILS

Please fill in BLOCK LETTERS

Date of Birth	Day			Month			Year					Gender	Male	Female
----------------------	-----	--	--	-------	--	--	------	--	--	--	--	---------------	------	--------

Names (Full, no initials allowed))

	Last Name	Middle Name	First Name
Self			
Father			
Mother			
Spouse			

Correspondence Address

House No./Apt Name/Block No.														
Road/Street/Lane														
Area														
City/Post/Taluka									PIN					
Telephone: Office	STD Code		Telephone No.											
Telephone: Residence	STD Code		Telephone No.											
Mobile No.														

Email IDs	(1)	(2)
------------------	-----	-----

PAN Nos.	(1)	(2)
-----------------	-----	-----

Passport Nos.	Current:	Previous :
----------------------	----------	------------

DP Client ID	DP ID	Joint Name (1) if any	Joint Name (2), if any

Bank Account Numbers (that will be used for capital market operations)

Bank Account Nos.	Bank Name	9 digits MICR No.	Branch Address	Joint Name (1), if any	Joint Name (2), if any

UCC Nos.	Brokers Full Name	Broker ID	Joint Name (1), if any	Joint Name (2), if any

I certify that the information given by me in this form is true and correct

Signature :	Date :
--------------------	---------------

PART C : RELATIVES/ASSOCIATES

Name of the Applicant	
DP Client ID No.	

I notify the association between me and the entities listed here below :

(Please fill details of only those persons who as on the date of this application already have a MAPIN UIN and/ or DP Client ID Number.

RELATIVES (refer to para 4.8.1 of this Report)

	FULL NAME (No initials allowed)			Date of Birth	MAPIN UIN	DP Client ID No.
	First Name	Middle Name	Last Name			
Father						
Mother (including step-mother)						
Sons (including step-sons)						
Son's wife						
Daughters (including step-daughters)						
Father's father						
Father's mother						
Mother's mother						
Mother's father						
Son's sons						
Son's son's wife						
Son's daughters						
Son's daughter's husband						
Daughter's husband						
Daughter's sons						
Daughter's son's wife						
Daughter's daughters						
Daughter's daughter's husband						
Brothers (including step -brothers)						
Brother's wife						
Sisters (including step -sisters)						
Sister's husband						

ASSOCIATES

COMPANY /ENTITY FULL NAME	TYPE OF ASSOCIATION (e.g. Promoter/ Director/ Employee etc.)	MAPIN UIN	DP Client ID No.

Declaration

I declare and state that the information given by me in this form is true and correct. I undertake to inform the concerned authority of any changes in the information provided by me.

Signature :		Date :
--------------------	--	---------------