

Handbook for NSDL Depository Operations Module

Business Partners – Systems, Procedures and Practices



National Securities Depository Limited

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Volume 2

Business Partners – Systems, Procedures and Practices

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CHAPTER 3

Business Partners of NSDL

NSDL depository system comprises NSDL and its business partners, i.e., Depository Participants (DPs), Issuers/R&T Agents and Clearing Corporations/ Stock Exchanges. This chapter deals with these business partners.

Depository Participants

The relationship between the DPs and NSDL is governed by an agreement made between the two under the Depositories Act. The form of the agreement is specified in the Bye-Laws of NSDL. Under the Depositories Act, 1996, a DP is described as an agent of the depository. The form of the agreement is specified in the Bye-Laws of NSDL. A DP is an entity who is registered as such with SEBI under the provisions of the SEBI (Depositories & Participants) Regulations, 1996. As per the provisions of these regulations, an entity can offer depository-related services only after obtaining a certificate of registration from SEBI as a depository participant. These regulations also define the eligibility criteria for registration with SEBI as a depository participant.

Eligibility Criteria

The eligibility criteria are prescribed by the SEBI (Depository & Participants) Regulations, 1996 and the Bye-Laws of NSDL.

Basic Eligibility – Persons belonging to one of the following categories are eligible to become a DP:

1. A public financial institution as defined in section 4A of the Companies Act.
2. A bank included for the time being in the Second Schedule to the Reserve Bank of India Act, 1934.
3. A foreign bank operating in India with approval of the Reserve Bank of India.
4. A State Financial Corporation established under the provisions of section 3 of the State Financial Corporations Act, 1951.
5. An institution engaged in providing financial services, promoted jointly or severally by any of the institutions mentioned in the four above-mentioned clauses.
6. A custodian of securities who has been granted a certificate of registration by SEBI.
7. A clearing corporation or a clearing house of a stock exchange.
8. A stockbroker who has been granted a certificate of registration by SEBI.
9. A non-banking finance company.
10. An R&T Agent who has been granted a certificate of registration by SEBI.

Net Worth – SEBI (Depositories & Participants) Regulations, 1996 prescribe a minimum net worth of Rs. 50 lakh for the applicants who are stockbrokers or non-banking finance companies (NBFCs), for granting a certificate of registration to act as a DP. For R & T Agents a minimum net worth of Rs. 10 crore is prescribed in addition to a grant of certificate of registration by SEBI. If a stockbroker seeks to act as a DP in more than one depository, he should comply with the specified net worth criterion separately for each such depository. If an NBFC seeks to act as a DP on behalf of any other person, it needs to have a networth of Rs. 50 crore in addition to the networth specified by any other authority. No minimum net worth criterion has been prescribed for other categories of DPs. However, depositories can fix a higher net worth criterion for their DPs. NSDL stipulates a minimum net worth of Rs. 100 lakh for all categories to be eligible to become a DP as against Rs. 50 lakh prescribed by SEBI (D&P) Regulations, 1996, except for R & T Agents and NBFCs, as mentioned above.

As per NSDL's Bye-Laws, an applicant has to submit a net worth certificate certified by a chartered accountant, including the computation of networth. The certificate, based on the audited books of account, should be in the format specified by NSDL in its Bye-Laws/Business Rules. NSDL has, in its Bye-Laws, provided for a specific method for calculation of net worth. It is possible that a DP may have different net worth figures for different depositories. The net worth specified under Bye-Laws of NSDL has to be maintained by DPs at all times without which NSDL may suspend or terminate their operations. The minimum net worth for a DP prescribed under the Bye-Laws of NSDL is Rs. 100 lakh.

Business Restrictions – As per SEBI (Depositories & Participants) Regulations, 1996 the aggregate value of the securities of the beneficial owners, held in dematerialised form through a stockbroker DP, cannot be more than 100 times the net worth of the stockbroker. However, where the stock broker has a minimum net worth of Rs. 10 crore, the limits on the aggregate value of the portfolio of securities of the beneficial owners held in dematerialised form in a depository through him, shall not be applicable. NBFCs, having a net worth of less than Rs. 50 crore, may act as DPs only on their own behalf. Only NBFCs having a minimum net worth of above Rs. 50 crore, in addition to the net worth specified by any other authority, may provide depository related services to other persons also.

Application for becoming a DP – An entity desirous of becoming a DP of NSDL should make an application to SEBI. The application, complete in all respects should be submitted to NSDL for forwarding to SEBI. NSDL evaluates the application and if it finds that the applicant may be admitted as a depository participant, forwards it to SEBI within 30 days of receiving it, along with its recommendations.

The applicant is required to pay SEBI application fees at this stage. NSDL may reject the application, if it is found to be incomplete or not as per the given instructions. SEBI may require the applicant or NSDL to furnish additional information or clarification, appropriate for considering the application. If the application form is found incomplete, SEBI may also reject the application after giving an opportunity to the applicant for removing the objection(s).

Conditions for Grant of Registration – On being satisfied that the applicant is eligible and has complied with the conditions stipulated in the SEBI (D&P) Regulations, SEBI may grant a registration certificate to the applicant. Before granting a certificate of registration to a DP, SEBI considers, inter alia, whether the applicant has adequate infrastructure and systems. It also takes into account whether it has in place the safeguards and trained staff to carry on activity as a DP and the applicant is a fit and proper person. Grant of registration is also subject to the condition that the Participant shall redress the grievance of beneficial owners within thirty days of the date of receipt of the complaint and keep the depository informed about the number and nature of redressals. Finally, it examines whether the grant of certificate of registration to such a person is in the interests of investors in the securities market.

NSDL has prescribed the following additional conditions for admission of DPs to its system.

1. The applicant should furnish information and details of its business history for a minimum period of three years.
2. The applicant should not have been convicted in any of the five years immediately preceding the filing of the application in any matter involving misappropriation of funds and securities, theft, embezzlement of funds, fraudulent conversion or forgery.
3. The applicant should not have been expelled, barred or suspended by SEBI, self-regulatory organisation or any recognised stock exchange. However, if three years or more have elapsed since the punishment, NSDL may, at its discretion, consider such an application.
4. The applicant should have a minimum net worth of rupees one crore (Rs.100 lakhs). The net worth is to be calculated as per the method of computation prescribed by NSDL.
5. The applicant should furnish details of its Board of Directors/ authorised officials, who will be responsible for acting on behalf of the DP.
6. NSDL may conduct entrance examinations and/or interviews, to examine the knowledge of the DP (and its staff) related to the operational, functional and technical aspects of the depository. NSDL may also make it mandatory for the DP to appoint a Compliance Officer, who interacts with NSDL on the DP's behalf for compliance with the Bye-Laws and Business Rules and resolving investors/clients' grievances.
7. The applicant should have adequate office space exclusively for depository operations. The applicant should also furnish details of his main office, including address, fax and phone number(s). NSDL has the sole discretion to decide whether the applicant has adequate infrastructure facilities at the time of granting admission.

8. The applicant should make adequate arrangements for conducting effective and safe depository operations. These should include security measures, risk containment and insurance requirements, as specified by the depository.
9. For the purpose of satisfying itself regarding the applicants' eligibility, NSDL may carry out an inspection of their office and facilities.
10. In order to ensure availability of qualified personnel in DP service centres, NSDL requires that at least one person in each DP service centres must be qualified in NCFM (NSE's Certification in Financial Markets) - Depository Operations Module.

Figure 5

Steps for joining as a DP

- Entity eligible and desirous of becoming a DP makes an application to NSDL.
- NSDL verifies the application for completeness and conformity to the requirements. NSDL may reject, ask for further information and / or clarifications, or ask to remove the defects in the application. Upon satisfaction of the requirements, NSDL grants approval to the application for recommendation to SEBI.
- Applicant is required to furnish details in the prescribed forms and procure necessary hardware as per specifications issued by NSDL. Applicant is required to provide the hardware set-up information to NSDL in the prescribed forms. Applicant establishes electronic connectivity with NSDL.
- NSDL forwards the application to SEBI for registration alongwith its recommendation.
- SEBI reviews the application and if found satisfactory, grants in principle approval.
- The DP pays the registration fees to SEBI within the stipulated period of 15 days. The DP also pays security deposits, insurance charges and other collateral to NSDL.
- SEBI grants Certificate of Registration to the applicant.
- The DP and NSDL sign an agreement in the prescribed format.
- NSDL activates the DP module at the applicant's (now a DP) premises.
- DP begins operations.

Validity and Renewal of Registration Certificate – A certificate of registration is valid for a period of five years from the date of issue. The SEBI Regulations require the Participant to make an application for renewal three months before expiry date of the validity of the certificate of registration. The application for renewal should be made through the depository. The fees specified for issue of certificate of registration should accompany the application. It is dealt with in the same manner as if it were a fresh application for grant of certificate of registration. SEBI

may reject the application for renewal of certificate after citing the reasons for refusal in writing. Application for renewal may be submitted to SEBI through NSDL three months before expiry date of the registration certificate.

1. If the application for renewal is not received at SEBI by the expiry date of the certificate of registration, the intermediary shall:
 - a. cease to be an intermediary on the date of such expiry,
 - b. stop carrying on the activities of the intermediary from the date of such expiry, and
 - c. transfer, wherever relevant, the accounts / business of existing clients to another registered intermediary before the date of such expiry.

If the intermediary fails to comply with all of the above, it will be considered as a violation of section 12 and may attract action under the relevant provisions of SEBI Act, 1992, and/ or the Regulations framed there under.

No application for renewal can be made after the date of expiry of registration. After the expiry of registration, the erstwhile intermediary can apply for registration, which will be considered as a fresh application for registration made under the relevant Regulations.

2. If the application for renewal is received at SEBI less than 3 months before the expiry of registration and SEBI has not advised otherwise by the date of expiry of registration, the intermediary shall stop undertaking any fresh business / clients from the date of expiry of the registration.

SEBI may initiate any action that may be deemed appropriate for late submission of application under the provisions of the SEBI Act, 1992 and the regulations framed there under.

It is clarified that in the above cases, the application for renewal shall mean the application is complete in all respects. Incomplete application will be treated as no application.

3. If renewal is not granted by SEBI for whatever reason, the intermediary shall:
 1. cease to be an intermediary on the date of expiry of registration or the date of receipt of communication of refusal to grant renewal,
 2. stop carrying on the activities of the intermediary from the date as at (a) above, and
 3. transfer, wherever required, the accounts / business of existing clients to another registered intermediary within such period as may be specified.

If the intermediary fails to comply with all of the above, it will be considered as violation of section 12 and shall be liable for action under the relevant provisions of SEBI Act, 1992, and/or the provisions of Rules and Regulations framed there under.

Commencement – A DP can commence its operations after complying with the prescribed procedures of the depository for commencing business operations. NSDL has specified following pre-requisites for DPs for commencing operations:

1. Apply in the prescribed form. Furnish all clarifications and additional documents as may be required by NSDL.
2. NSDL communicates whether or not the application of a DP is accepted.
3. On receiving the approval an application for connectivity with NSDL should be made. Primary connectivity can be by way of V-sat or leased line. Full-scale connectivity by way of PSTN line, dial up lines also has to be arranged as a fall back if the primary connectivity fails.
4. Procure the prescribed hardware and communicate to NSDL the details of the hardware installed.
5. NSDL will conduct a pilot test to train the staff on the functions of the depository and to check the systems. The DP has to participate in the pilot test.
6. NSDL conducts training programmes for the staff of DPs in its premises. DPs have to get sufficient number of its employees trained by NSDL.
7. NSDL encourages all DPs to employ staff who have qualified in the Depositories Module of NCFM. NSDL has made it mandatory for all depository participants to appoint atleast one NCFM qualified person at all the branches.
8. NSDL depository system application in live environment is activated in the office of the DP. A DP - ID is issued to the DP.
9. Now DP can start functioning.

Rights and Obligations

Agreement with Beneficial Owners – The DP must enter into an agreement with a beneficial owner before acting as a participant on his behalf. A DP, while conducting any business with a client, acts as an agent of NSDL and is liable to the clients for all the acts and deeds performed by it. The agreement has to be made in the form and manner specified by NSDL in its Bye-Laws. A copy of the agreement should be given to the beneficial owner. Schedule of charges is a part of the agreement. However no agreement is required in where:

1. A Foreign Institutional Investor registered with SEBI enters into an agreement with the DP either directly or through its power of attorney holders in accordance with the provisions of sub-regulation (1) of regulation 16 of SEBI (Foreign Institutional Investors) Regulations, 1995. Such agreement gives the DP an authority to act on behalf of the foreign institutional investors for availing the services of the depository and such agreement has already been filed with SEBI.
2. International Multilateral Agency, who has entered into an agreement with the DP under Regulation 17 of the SEBI (Custodian of Securities) Regulations 1996, and such agreement states that the Custodian will also act as a DP and all provisions pertaining to DP shall be applicable.

Separate Accounts – The DP should open a separate account in the name of each beneficial owner. The securities of each beneficial owner should be segregated from the securities of other beneficial owners or from the DP's own securities. For DP's own securities, he should open a separate account called House Account in the depository system.

Client Instructions – Securities should be transferred to or from a beneficial owner's account only on receipt of instructions from the beneficial owner. No entry in the beneficial owner's account should be made unless it is supported by instructions received from the beneficial owner as per the agreement made with him.

Transaction Statements – The DP should provide transaction statement to the beneficial owner as laid down in the agreement with the beneficial owner. NSDL Bye-Laws require each DP to provide a transaction statement at monthly intervals, or at such lesser interval as may be agreed between the DP and client. If there is no transaction in the account, the statement should be provided at least once in a quarter. The Transaction Statement should be dispatched directly to the client's address mentioned in the DPM system of the DP and not through any franchisee / collection centre.

The statement could be provided through Internet/ e-mail, provided an agreement in the prescribed format has been executed with the clients for this and adequate security measures have been taken. SEBI permits the DP's to provide transaction statements and other documents to the Beneficial Owners (BOs) under Digital Signature, as governed under Information Technology Act, 2000, subject to entering into legally enforceable arrangement with the BOs for the said purpose. Providing of transaction statements and other documents in the aforesaid manner would be deemed to be in compliance of the provisions of Regulation 43 of SEBI (Depositories & Participants) Regulations, 1996.

Further, if a Client subscribes to IDeAS, SEBI has permitted the Participants to discontinue providing physical transaction statements to their Clients. However, the Participants will be required to send a consolidated transaction statement, in physical form, for the entire financial year and the same shall be dispatched before 15th of May every year.

However if the BOs are still desirous of receiving statements in hard copy, the DPs shall be duty bound to provide the same.

Connectivity – The DP should maintain continuous electronic means of communication with NSDL. In case of failure of primary connectivity the DP should connect to NSDL by using fall back medium of connectivity. The branch offices of DPs handling more than 5,000 accounts should have either direct electronic connectivity with the depository or with the office of the DP

directly connected to the depository. The primary connectivity can either be V-Sat or leased line while secondary connectivity can be through dial-up line.

Monitoring, Reviewing and Evaluating Internal Systems and Controls – The DP should have an adequate mechanism for the purposes of reviewing, monitoring and evaluating its internal systems and accounting controls. As per NSDL Bye-Laws, a DP has to get an internal audit done of the depository operations on a quarterly basis by a practising chartered accountant or company secretary.

Reconciliation – The DP should reconcile its records with NSDL on a daily basis. NSDL system is designed to do this reconciliation automatically every day at the end of the day (EOD). In case the DP is using any back-office software it needs to reconcile the same as per the NSDL DPM.

Returns – The DP should submit periodic returns to SEBI and to every depository in which it is a participant in the format specified by SEBI or the Bye-Laws of the depository. NSDL requires following returns to be submitted by its DPs:

1. A copy of audited financial statements. Each participant shall furnish to the Depository every year, a copy of its audited financial statement within a period of one month after the balance sheet and profit and loss account have been placed before the company at the Annual General Meeting or within 6 months from the end of Participant's financial year, whichever is earlier.
2. Net worth certificate computed in a manner laid down in the Business Rules, issued by a chartered accountant on the basis of annual audited accounts of the DP.
3. If the DP is a clearing member of the clearing corporation of any exchange, the details regarding any suspension/termination or defaults or any disputes in relation to its dealings with such clearing corporation within two working days of such an event.
4. Number of complaints received from clients, their nature, status and manner of redressal, once every month.
5. Internal audit report and concurrent audit report, once every quarter.

DP to Indemnify Depository – A DP has to indemnify the depository, its officers and employees for all costs, fees, expenses, liabilities, taxes, actual losses and damages of any nature whatsoever suffered or incurred by any of them for:

1. The failure by the DP to comply with the provision of the Bye-Laws or the DP agreement or to comply with any directions or procedures of the depository.
2. The acts by the depository or its officers and employees placing reliance upon instructions or communications by the DP. These include giving effect to instructions or communications by any of them or the failure of the DP to give instructions to the depository as contemplated in the Bye-Laws.

3. The acceptance by the depository of eligible securities deposited by the DP and effecting transactions by the depository according to the Bye-Laws and withdrawal of eligible securities by the DP.
4. The failure of the DP to deliver eligible securities or to perform other duties or obligations set out in the Bye-Laws.

Prohibition of Assignment – No DP can assign or delegate its functions as a depository participant to any other person without prior approval of NSDL. All the DPs are required to provide the details of all places from where they are offering any of the depository services to their Clients whether it is called DPM set-up, head office, main office, branch, franchisee, service centre, collection centre, drop box centre or by any other name and any further updates (addition/deletion/modification) in the information to NSDL within seven days of the change.

Insurance – DPs should take appropriate insurance cover to insure against losses arising from any possible business risk and system failure. However, NSDL takes insurance for itself and on behalf of all DPs. The insurance covers business risk and system failure risk. DPs may additionally take for themselves insurance to cover risks like theft, fire, etc.

Record of Services – The DP should maintain and preserve the records and documents for a minimum period of five years. They should also make them available for inspection by the depository whenever required.

1. Forms for Opening, Closing, Freezing and Defreezing of accounts given by the clients.
2. Record of all the dematerialisation and rematerialisation requests received from the clients.
3. Record of all the delivery/ receipt instructions given by the clients and Clearing Members.
4. Copies of correspondence received from clients for updation of client details in DPM.
5. Records of all the actions taken on the exception reports generated by the system.
6. Details of grievances/arbitration proceedings received from the clients, action taken and status of the same.
7. Record of all forms received in respect of Pledge, Securities Lending and Transmission of securities.

If a DP has entered into an agreement with more than one depository, the records specified above should be maintained separately for each such depository.

DP to ensure adherence to guidelines on Anti Money Laundering Measures--

The Prevention of Money Laundering Act 2002 (PMLA) has come into effect from 1st July, 2005.

As per the provisions of the Act, every banking company, financial institution (which includes chit fund company, a co-operative bank, a housing finance institution and a non-banking financial company) and intermediary (which includes a stock-broker, sub-broker, share transfer agent, banker to an issue, trustee to a trust deed, registrar to an issue, merchant banker, underwriter, portfolio

manager, investment adviser and any other intermediary associated with securities market and registered under section 12 of the Securities and Exchange Board of India Act, 1992) shall have to maintain a record of all the transactions; the nature and value of which has been prescribed in the Rules under the PMLA.

Such transactions include-

- All cash transactions of the value of more than Rs 10 lakhs or its equivalent in foreign currency.
- All series of cash transactions integrally connected to each other which have been valued below Rs 10 lakhs or its equivalent in foreign currency where such series of transactions take place within one calendar month.
- All suspicious transactions whether or not made in cash.

Broadly, the guidelines on Anti Money Laundering (AML) measures are as under:-

1. Participants are to evolve their own guidelines (if not already evolved) so as to comply with the provisions of the PMLA and the rules, guidelines thereof issued by GOI/SEBI, from time to time.
2. Participants to put in place proper policy framework on AML measures in compliance with relevant laws, rules and instructions.
3. AML procedures should include inter alia, the following three specific parameters which are related to the overall '**Client Due Diligence Process**':
 - a. Policy for acceptance of clients
 - b. Procedure for identifying the clients
 - c. Transaction monitoring and reporting especially Suspicious Transactions Reporting (STR).
4. Each Participant should appoint a senior management executive to be designated as the Principal Officer, if it has not already done so. The Principal Officer shall be located at the head/corporate office of the Participant and shall be responsible for monitoring and reporting of all transactions and sharing of information as required under the law. He will maintain close liaison with the other divisions / departments of the Participant, the other Participant, the enforcement agencies and other institutions which are involved in similar activities.
5. Monitoring and Reporting to Financial Intelligence Unit-India
Participants are required to report information relating to suspicious transactions, in the prescribed format, within seven working days of establishment of suspicion, to the Director, Financial Intelligence Unit-India (FIU-IND) at the following address:

**Director, FIU-IND,
Financial Intelligence Unit-India,
6th Floor, Hotel Samrat,
Chanakyapuri,
New Delhi-110021.**

6. Maintenance and Preservation of records
 - a. Participants should take appropriate steps to evolve an internal mechanism for proper maintenance and preservation of relevant records and information in a manner that allows easy and quick retrieval of data as and when requested by the competent authorities. Further, the records have to be maintained and preserved for a period of ten years from the date of cessation of the transactions between the client and Participant.
 - b. Participants should formulate and implement the client identification program containing the requirements as laid down and such other additional requirements that it considers appropriate. The records of the identity of clients have to be maintained and preserved for a period of ten years from the date of cessation of the transactions between the client and Participant.
7. Participants should obtain a certification from their internal auditors that the concerned Participant has drawn up a policy on Anti Money Laundering Measures in compliance with the relevant laws, rules and instructions. In addition, in every quarterly report, the internal auditor must check and certify whether the Participant has complied with the Policy so drawn up. Any deficiencies should be specifically pointed out in the report.
8. The Compliance Officer of the Participant is required to submit a 'Compliance Certificate' in the prescribed format, at half-yearly intervals (January to June and July to December to be submitted by July 31 and January 31 of every year respectively).
9. Participants should educate the Clients about the objectives of the KYC programme. The front desk staff needs to be specially trained to handle such situations while dealing with Clients.

DP to Ensure Integrity and Back-up of Data – DPs who maintain electronic records should ensure the integrity of the data processing systems. All necessary precautions should be taken to ensure that the records are not lost, destroyed or tampered with. In the event of loss or destruction, sufficient back-up of records should be taken and made available at all times at a different place. In order to ensure this, NSDL has prescribed the following back-up policy for its DPs :

1. Business partners have to take back ups every day without fail.
2. Two copies of back-ups have to be taken; one copy has to be preserved at a remote site away from the operations and another on the site itself.
3. Application software generates transaction logs every 15 minutes and writes on to a client machine. DPs should keep the client machine where transaction logs are copied, powered on as long as DPM server is kept on to have a transaction log written.
4. The back-up tapes should be preserved safely, well protected against fire, theft and manipulation.

5. If the DPs have large business volumes, they may install an additional back-up machine which helps them in continuing the business operation even if the main machine fails.

Suspension of Certificate – The certificate of registration granted to a DP may be suspended by SEBI if it is found that the DP has:

1. contravened any of the provisions of the Depositories Act, the Bye-Laws, agreements and SEBI (D&P) Regulations, 1996;
2. failed to furnish any information relating to its activity as a DP required under the regulations;
3. not furnished the information called for by SEBI under the provisions of the Depositories Act, 1996 or has furnished information which is false or misleading;
4. not co-operated in any inspection or investigation or enquiry conducted by SEBI;
5. has failed to comply with any direction of SEBI; or
6. has failed to pay the annual fee as specified under the SEBI (D&P) Regulations, 1996.

Cancellation of Certificate – The certificate of registration granted to a DP may be cancelled by SEBI if it is found that:

1. the DP is guilty of fraud, or has been convicted of an offence involving moral turpitude; or
2. the DP has been guilty of repeated defaults specified for suspension of the registration.

Termination by Depository – Besides these regulatory provisions, each depository may have its own Bye-Laws for termination or suspension of its DPs. NSDL's Bye-Laws provide 15 conditions under which it may terminate the operations of a DP.

Termination by DP – A DP may also choose to terminate its participation in the depository by giving a notice of not less than 30 days. On receipt of such notice, the depository may cease to provide any service or act for the DP. The depository should notify the DP, other participants, clients of the surrendering DP and SEBI within seven days of this action.

Clearing Corporation/Clearing House (CC/CH)

This term applies to an entity responsible for clearing and settlement of trades done by clearing members on a recognised stock exchange. A Clearing Corporation / Clearing House of a stock exchange is admitted to the depository system for clearing and settlement of securities traded on their respective stock exchanges. For electronic settlement of securities in demat form, the concerned CC/CH of the stock exchange needs to have electronic connectivity with the depository.

A Clearing Corporation or a Clearing House of a stock exchange may be admitted as a user on NSDL subject to its entering into an agreement with NSDL as laid down in the Bye-Laws of NSDL. A different agreement has to be drawn up if a clearing house of a stock exchange is not a legal counterparty to the trades on the exchange and the trade/settlement guarantee fund is held and

managed by the exchange. A third type of agreement has to be entered into if the members/dealers of the exchange are not the clearing members of the Clearing House. A stock exchange may be admitted as a user on the depository, if it conducts the activity of clearing and settlement of trades and if it is not a legal counterparty to the trades thereon and holds and manages the trade/settlement guarantee fund. An agreement, as laid down in Bye-Laws of NSDL, has to be entered into.

The provisions of these agreements govern the rights and obligations of the NSDL, the clearing corporation or the clearing house of a stock exchange and the exchange, in respect of transactions entered into in pursuance of such agreements.

Admission Criteria

A clearing corporation or a clearing house of stock exchange can be admitted as a user on the NSDL only if it fulfills the conditions laid down. These criteria are listed below :

1. The clearing corporation or a clearing house of a stock exchange has adequate hardware and software systems to interact with NSDL as specified in the Business Rules;
2. NSDL is satisfied that the clearing corporation or a clearing house of a stock exchange operates in such a manner that it ensures payment against delivery or guarantees settlement;
3. The clearing corporation or a clearing house of a stock exchange undertakes to co-operate at all times to redress the grievances of clients and DPs in respect of its operation in relation to NSDL;
4. In the opinion of NSDL, the clearing corporation or a clearing house of a stock exchange has the operational capability to provide the services relating to clearing and settlement of transactions pertaining to the securities admitted to the Depository to be held in dematerialised form.

A Clearing Corporation or a Clearing House of a stock exchange shall not be permitted to open beneficiary accounts for clients, except where it has been permitted by RBI to offer Constituent SGL account facility to the investors.

A Clearing Corporation (CC) or a Clearing House (CH) of a stock exchange can also be admitted as a full fledged Participant including opening beneficiary accounts, provided the following additional conditions are satisfied:

- a) The CC/CH applicant has a net worth of Rs. 5 crore. In case it does not have a net worth of Rs. 5 crore , it must undertake to enhance its net worth to Rs. 5 crore within a period of two years.
- b) The aggregate value of Client's assets held by a CC/CH Participant shall not exceed 20 times its net worth.

Issuers and R&T Agents

The Depositories Act, 1996 gives option to investors to hold their securities either in physical form or in book entry form with a depository. Issuer of the security i.e. company may offer a facility to hold the securities issued by it in demat form by entering into an agreement with NSDL. The issuers who intend to offer demat facility will have to establish connectivity with NSDL either directly or through a Registrar & Transfer Agent having connectivity with NSDL.

Eligibility Criteria

Following category of securities are eligible for dematerialisation as per SEBI (Depositories & Participants) Regulations, 1996:

- (a) shares, scrips, stocks, bonds, debentures, debenture stock or other marketable securities of a like nature in or of any incorporated company or other body corporate;
- (b) units of mutual funds, rights under collective investment schemes and venture capital funds, commercial paper, certificates of deposit, securitised debt, money market instruments and government securities, unlisted securities shall also be similarly eligible for being held in dematerialised form in a depository.

All Issuers of these securities may make their securities available for dematerialisation upon fulfilment of certain criteria. The Executive Committee of NSDL determines the securities that are eligible for dematerialisation. Before dematerialisation commences, the Issuer or its R&T Agent, if any, has to comply with the following conditions :

- (i) The Issuer and/or its R&T Agent undertakes to co-operate at all times to redress the grievances of the client and the DP.
- (ii) The Issuer and/or its R&T Agent shall have adequate hardware and software systems to interact with Depository as specified from time to time in the Business Rules.
- (iii) The Issuer and its R&T Agent if any, have signed the tripartite agreement as per the Bye-Laws of NSDL.

The above conditions are not applicable to securities issued by Central or State Government.

NSDL may refuse to accept the admission of securities of an issue as an eligible security or may remove the same from the list of eligible securities if —

- (i) in the opinion of NSDL, the Issuer or its R&T Agent does not have or has ceased to have the operational capability to provide services in respect of an issue of securities;
- (ii) the Issuer or its R&T Agent commits any breach to any terms and/or conditions of the agreement entered into with NSDL,
- (iii) The Board of Directors of NSDL, in its absolute discretion, is satisfied that circumstances exist which render it necessary in the interest of the investors to do so.

Rights and Obligations of Issuers and their R&T Agents

Each Issuer whose securities are admitted to NSDL are required to represent and warrant in favour of NSDL that such securities exist at the time of transfer of securities into the Depository and thereafter. The Issuer also has to warrant that these securities are validly issued and that it is entitled or has full authority to transfer such securities into the Depository.

Every Issuer has to provide timely information to NSDL about various corporate actions. These include - book closure, record dates, dates for payment of interest or dividend, dates for the annual general meeting, dates of redemption of securities, dates of conversion, dates of exercising warrants and such other information as may be specified by the Executive Committee of NSDL from time to time.

The Issuer and its R&T Agents have to reconcile with records of NSDL, the records in respect of balances of eligible securities with clients and confirm to all the Depositories, the total security balances both in physical as well as in electronic holdings in the books. Where a State or the Central Government is the Issuer, NSDL reconciles the records of the dematerialised securities with the statement provided by the RBI on a daily basis.

Every Issuer or its R&T Agent shall issue the certificate of securities against receipt of the Rematerialisation Request Form from the Client through the DP and on receipt of confirmed instructions from the Depository. The Issuer or its R&T Agent are required to furnish to NSDL allotment details of all clients who have opted for securities to be credited to their account in the electronic form. NSDL electronically provides the details of the Clients to the Issuer/R&T Agent every fortnight. This clause does not apply to Government Securities.

The Depository is responsible for the accuracy/correctness of all such information related to eligible securities intimated by it to the Issuer/R&T Agent. The Issuer/R&T Agent is responsible for the accuracy and correctness of all information furnished by it in the prescribed form to NSDL.

The Main Features of the Tripartite Agreement

The rights and obligations of NSDL, the Issuer and R&T Agent are embodied in the Tripartite Agreement between them. This agreement has to be signed before the Issuer/R&T Agent can be admitted in the depository system. Some of the main terms of the Agreement are quoted below :

1. The Issuer/R&T Agent shall furnish a list of authorised officials who shall represent and interact on behalf of the Issuer and/or R&T Agent with NSDL within 15 days of the execution of this agreement and any changes including additions/deletions, thereof shall be communicated to NSDL within 15 days of such change.
2. NSDL shall allocate unique identity codes to the securities issued by an issuer. Such code is called ISIN (International Securities Identification Number).

3. The Issuer/R&T Agent shall establish continuous electronic means of communication with NSDL and NSDL shall provide necessary manuals and procedural guidelines to the Issuer/R&T Agent as is necessary for effective and prompt conduct of the business of the Depository. The Issuer/R&T Agent shall maintain such systems, procedures, means of communication, adequate infrastructure, hardware, software security devices and back-up facilities as may be prescribed by NSDL.
4. The Issuer/R&T Agent shall strictly follow the back-up procedure recommended by NSDL. A copy of the latest back-up of database and subsequently incremental back-up shall be maintained at a designated remote site.
5. The Issuer/R&T Agent shall comply with all the systems and procedures recommended by NSDL and shall allow access to their systems to an EDP Audit Team, designated by NSDL for periodic assessment of compliance with systems and procedures.
6. The Issuer/R&T Agent agree that NSDL shall not be liable to the Issuer/R&T Agent for any loss arising out of any failure of the Issuer/R&T Agent to keep full and up-to-date security copies (back-up) of computer programme and data it uses in accordance with the best computing practice.
7. The Issuer shall inform NSDL on the next day on which the information is being sent to the stock exchanges in which the eligible securities are listed, about the dates from which new shares arising out of conversions, further issues, final call payments, etc. become *pari passu* with its existing shares.
8. The Issuer shall furnish information to NSDL of any further issues such as rights, bonus, public offerings with details viz., opening and closing dates, issue size, issue price, record date, book closure, proportion, along with a copy of the offer document.
9. The Issuer shall give information to NSDL about book closures, record dates, dates for the payment of interest or dividend, dates for annual general meetings and other meetings, dates for redemption of debentures, dates for conversion of debentures and warrants, call money dates, amalgamation, merger, reduction of capital, reconstruction scheme of arrangement, sub-division, consolidation, and conversion of debentures/loans and such other information relating to any corporate action, on the next day it is being communicated to the relevant stock exchanges, where the eligible security is listed.
10. The Issuer and its R&T Agent undertakes that the dematerialisation and rematerialisation requests are processed within 15 and 30 days respectively. However, it is agreed that in case of bulk dematerialisation requests, this period may be extended to 30 days.
11. The Issuer and its R&T Agent undertakes that no dematerialisation requests shall be accepted when there are any prohibitory order, stop transfer, attachment order, or disputed title, on the day of such request. It is agreed that where a court order has been received by the Issuer and/ or its R&T Agent or where there are court orders against any transfer

request if such a request is entertained, the Issuer/R&T Agent shall be entirely responsible. The Issuer/R&T Agent agrees to be fully responsible for destruction, mutilation and cancellation of certificates received and accepted by it for dematerialisation.

12. It is agreed that the Issuer/R&T Agent will continue to be responsible for corporate actions. NSDL undertakes to provide the list of beneficial owners with suitable details to the Issuer/R&T Agent as of the record date. This list shall be provided by the NSDL fifteen days after such request has been received by NSDL. In the event of any loss caused to the Issuer/R&T Agent, in respect of any incorrect information relating to the Client, furnished by NSDL or its Participant, NSDL shall indemnify such losses.
13. The Issuer/R&T Agent shall indemnify NSDL in respect of any loss or liability incurred, or any claim arising in respect of any incorrect information furnished by the Issuer/R&T Agent in respect of the operations of the Depository.
14. Any claims, disputes or liabilities arising in respect of any securities which have been re-materialised under intimation from the Issuer/R&T Agent to NSDL after the despatch of such securities' certificates in the manner laid down under the Bye-Laws shall be settled between the Issuer/R&T Agent and the owner of such securities.
15. In the case of securities that have been dematerialised and electronically credited to the accounts of the Clients in NSDL under intimation from the Issuer/R&T Agent in the manner laid down under the Bye-Laws, any claims, disputes or liabilities or cause of action from a third party arising in respect of such securities pertaining to any fake or forged securities shall be settled between the Issuer/R&T Agent and such third party.
16. NSDL may authorise persons who, shall have the right to enter during the regular business hours, on any working day, the premises of such Issuer/R&T Agent where the records relating to the depository operations are being maintained and inspect, and take copies thereof.
17. NSDL shall provide reports updating details of Beneficial Owners on a fortnightly basis to the Issuer/R&T Agent.
18. NSDL shall provide the details of the list of Beneficial Owners as well as the pending requests for Dematerialisation and Rematerialisation that may be required by the Issuer/R&T Agent from time to time on the payment of such charges as may be provided in the Business Rules. Such information shall be provided within 15 days from the date of making such request. Where the list of Beneficial Owners is required as on a particular date, the same shall be provided within a period of 15 days after such date or 15 days from the date of receipt of such request by the NSDL whichever is later.
19. NSDL shall in its discretion provide any other details that may be required by the Issuer and/or its R & T Agent from time to time on the payment of such charges as it may deem fit.
20. The Issuer and/or R & T Agent shall inform NSDL of any proposed changes in the address of

the Registered Offices, Corporate Office or of the location where the equipment for communication with NSDL is situated not less than thirty days before the date of such change.

21. NSDL shall inform the Issuer and/or its R & T Agent of any proposed changes in the address of its Registered Office or Corporate Office not less than thirty days before the date of such change.
22. The Issuer shall not change, discontinue or substitute its R & T Agent unless the alternative arrangement has been agreed to by NSDL.
23. The Issuer and/or its R & T Agent shall not assign to any other person/ entity its functions & obligations, relating to transactions with the Depository, without the approval of NSDL.
24. All parties to this agreement shall resolve the grievances of the Beneficial Owners within a period of 21 days, from the date of receipt of the complaint, concerning NSDL, the Issuer and/or its R & T Agents.

Role of Issuer/ R&T Agent in Dematerialisation of Securities

The Depository electronically intimates, on a daily basis, all dematerialisation requests to the respective Issuer or its R&T Agent. The Issuer or its R&T Agent have to verify the validity of the security certificates as well as the fact that the demat request has been made by the person recorded as a member in its Register of Members. After such verification, the Issuer or its R&T Agent intimates NSDL and authorises an electronic credit for that security in favour of the Client. On receipt of such intimation, NSDL makes the credit entries in the account of the Client concerned. No credit of any securities to the accounts of any client can be made unless NSDL has received intimation from the Issuer or its R&T Agent.

Where the Issuer or its R&T Agent rejects any dematerialisation request, it has to electronically intimate NSDL regarding such rejection within a period of 15 days. After intimating such rejection to NSDL, the Issuer or its R&T Agent returns the DRF along with the rejection reason and relevant security certificates, unless the reasons for rejection are any of the following:

1. the security certificates are stolen or;
2. the security certificates are fake or;
3. in the event of an order from a court or a competent statutory authority prohibiting the transfer of such securities or;
4. in case duplicate certificates have been issued in respect of the securities with the same distinctive numbers.

In the event of intimation being received by the Depository from Issuer or R&T Agent to credit the account of the Client with securities which do not match with the details of the Client or DP, the balance shall be held in suspense account. In the event of any person making a claim to the securities that are held in the name of the Client with NSDL after they are so registered, such claim must be settled amongst the DPs, Clients and Issuer or its R&T Agent.

The Issuer or its R&T Agent, after giving intimation as set out in NSDL's Bye-Laws, represents and warrants to NSDL that such securities exist and are validly issued and it is entitled or has full authority to transfer such securities with the Depository in the name of the Client.

Role of Issuer/ R&T Agent in Rematerialisation of Securities

A Client may withdraw its security balances with the Depository at any point of time by making an application for rematerialisation to the Depository through its DP. When the investor submits the Remat Request Form (RRF), the Issuer and/or its R&T Agent and the NSDL have to take the following steps :

- NSDL intimates electronically details of all accepted rematerialisation applications to the Issuer or its R&T Agent on a daily basis.
- The DP forwards the RRF to the Issuer or its R&T Agent within 7 days of accepting such request from the client. The Issuer/R&T Agent, after validating the RRF, confirm to NSDL electronically that the RRF has been accepted. Thereafter, the Issuer/R&T Agent despatches the security certificates arising out of the rematerialisation request within a period of 30 days from receipt of such RRF directly to the client. On receipt of such acceptance from the Issuer/R&T Agent, NSDL debits the balances from the respective client's account held with the DP's.

Role of Issuer/R&T Agent in Corporate Benefits

It is the function of the Issuer/R&T Agent to inform NSDL about the corporate actions relating to prescribing dates for book closures, record dates, dates for redemption or maturity of security, dates of conversion of debentures, warrants, call money dates and such other action from time to time and submit necessary approval documents for the corporate actions. On receiving such intimation, NSDL provides the details of the holdings of the clients electronically to the Issuer/R&T Agent (as of relevant cut off date) for the purpose of corporate actions and distribution of corporate benefits. The Issuer/R&T Agent distributes dividend, interest or other monetary benefits directly to the eligible beneficial owners on the basis of the list provided by the NSDL. The corporate benefits can be distributed through NSDL also with its concurrence.

The Issuer/R&T Agent may, if the benefits are in the form of securities, distribute such benefits to the clients through NSDL in the following cases:

- The newly created security is an eligible security.
- The concerned client has consented to receive the benefits through NSDL.

In such a case, the Issuer/R&T Agent provides allotment details of all clients to the NSDL. On receipt of these details, NSDL makes the necessary credit entries in the account of the client concerned. In certain cases such as split of shares, consolidation of shares, mergers, demergers, bonus shares, etc. corporate action is executed automatically as per the fixed ratio defined by Issuer/R & T Agent, through the NSDL system. This feature is called "Automatic Corporate Action".

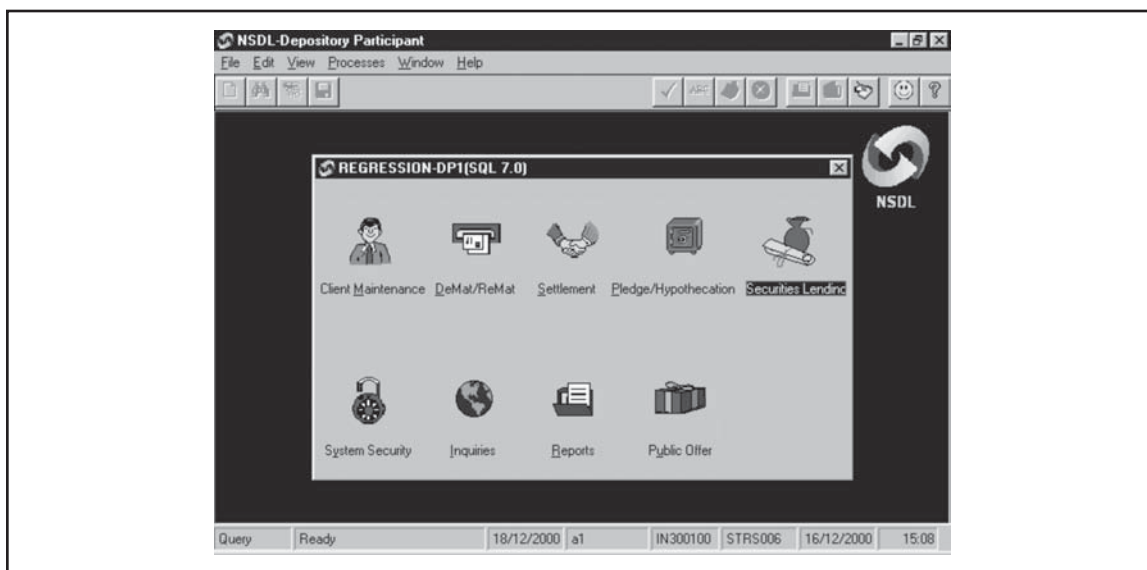
CHAPTER 4

NSDL Application Software

NSDL has supplied the application software for depository operations to its business partners (viz. Depository Participants, Clearing Corporation and Issuers/Registrar & Transfer Agents). The software of Depository Participants is called DPM (DP), for Clearing Corporation, it is called DPM (CC) and for Issuer/Registrar & Transfer Agents, it is called DPM (SHR). The complete depository software of NSDL is called as NEST (National Electronic Settlement & Transfer).

The objective of this chapter is to enhance understanding of the depository software. Although knowledge of the details of the depository software is not essential for users, an understanding of how it works would facilitate better application and utilisation.

DPM (DP) and DPM (CC) Module:



The modules available in NSDL application software for DPM (DP) and DPM (CC) are described in brief below. If and when the DPM software is opened, screens containing the following functions will appear. Each function is seen as an icon as shown in the picture above. However, DPM (CC) is not authorised to create non-house beneficiary accounts.

Client Maintenance: This module is used to create/modify Client Account details and to check Statement of Holding/Transaction report.

Demat/Remat: This module is used to enter Demat/Remat requests into the system and check their status later.

Settlement: This module is used to enter Account Transfer instructions - off market as well as market transactions.

Account Transfer Instruction: Transfer of securities from beneficiary account to Settlement account of the broker or any other beneficiary account is known as 'Account Transfer' instruction. The "receive" instruction can be entered from this module if standing instruction is not already enabled in the client details.

Delivery Out Instruction: Delivery of securities from Settlement account of the broker to the clearing corporation or clearing house is known as 'Delivery Out' instruction.

Inter-settlement Instruction: Transfer of securities from one market type/settlement number to a future market type/settlement number within a Clearing Member Settlement Account is known as Inter-settlement instruction.

Pool to Pool Instruction: Transfer of securities from one market type/settlement number in a Clearing Member Settlement account to a future market type/settlement number of another Clearing Member Settlement account is known as Pool to Pool instruction.

Receipt-In Instruction: The receipt of securities from the stock exchange in the Clearing Member Settlement account as Pay-out is known as Receipt-In instruction.

Irreversible Delivery-Out Instruction: Delivery of securities by a Clearing Member to the CC/CH before the pay-in date is known as Irreversible delivery out instruction. This instruction once executed cannot be cancelled by Clearing Member.

Auto Delivery Out Instruction: NSDL system provides a facility for brokers whereby their settlement obligation for securities are directly debited to their clearing account and are credited to the account of the concerned clearing corporation / house (CC/CH). This is an optional facility and can be used if the concerned CC/CH has opted for the facility. This facility eliminates the need for brokers to give pay-in instructions to their DPs. The instructions are generated by the CC/CH and clearing members have to handle only exceptional cases. This facility ensures that if a client has delivered securities with correct settlement details to his broker's clearing account before the settlement deadline, the securities would be delivered for pay-in to the clearing corporation/clearing house (CC/CH).

Additional modules are available in DPM-CC Module for receiving securities from Clearing Members as Pay-in and to deliver them to Clearing Members as Pay-out.

Pledge/Hypothecation: This module is used to enter pledge or hypothecation related instructions - creation, confirmation of creation, closure, closure confirmation and invocation.

Securities Lending/Borrowing: This module is used to enter security lending/borrowing related instructions.

Account Freeze Facility: NSDL system provides the facility to freeze the depository accounts for any debits or for both, debits and credits. In an account which is "frozen for debits", no debits will be permitted from the account, till the time it is unfrozen.

Future Dated Instructions: An investor who has sold shares can specify the date on which the securities must be moved out of its depository account while giving a delivery instruction to its DP. This can be a future date and is known as execution date. The investor can use this facility by issuing instructions with a future execution date to its DP immediately on confirmation of sale by the broker. This facility is particularly useful for investors having accounts at locations where DPs do not have direct connectivity to NSDL's central system.

System Security: This module is used for managing security of the software by creating user groups, user profiles and managing user passwords. This facility is to be used for implementing variable access rights scheme suggested by NSDL.

Inquiries: This module is used to get information regarding database and System Security profile. The details of information available from here are explained below.

Database related information: Information related to ISIN Master, BP Master, CC Calendar, Client signature, Audit report, etc., can be obtained from these sub-menus. Master information is downloaded by NSDL every day. Therefore, DPs should check the new information every day.

MIS: Information related to System Security profile is available from here.

Beginning of Day (BOD): This is the first message for the Day sent from NSDL DM to all Business Partners (DPM Set-ups). Only after this message is received, the System status becomes as Regular Operations. DPs can start releasing (communicating) transactions to NSDL only after BOD is received/viewed on the screen. DPs may expect to receive BOD early in the morning (before 6 a.m.). DPs who have a large number of transactions to transmit to NSDL may note the receipt of BOD and commence transmission of instructions.

End of Day (EOD): This is the last message for the day sent from NSDL DM to all Business Partners. The system status becomes Regular Operations Ended after this message is sent. Once EOD is received, communication between NSDL and DP will stop due to which transactions cannot be transmitted to NSDL. However, DPs may capture, verify and release the transactions on the DPM system.

OPERATION CYCLE: The Daily Operation cycle at NSDL is as follows:

BOD in process:	This will be the first process for the day.
Regular Operations:	This indicates the period during which DP can perform operations for the current business date.
Regular operations Ended:	After this status, DP cannot verify release any instructions with the current date as the execution date. DP can still verify-release future dated instructions.
EOD in process:	A pop-up message indicating 'EOD in Progress' is also flashed on the server.
Business ended:	After EOD is completed, the status changes to Business Ended.
NSDL Business End Time:	This indicates the time after which EOD will start from NSDL.

Note: The DP can communicate with NSDL system only during the BOD-EOD cycle. However, the DP can operate its DPM system even after the EOD and before the BOD, i.e., on a 24-hour basis on an off-line basis using this software.

Reports: NSDL Application has been designed to provide the following customised reports using the Reports module:

- Master List Reports - BP Master, ISIN Master, Client Master, CC Calendar.
- Account Detail - Statement of Holding / Transaction (CM / Non-CM).
- Demat / Remat reports - forms, status.
- Public offer - Application details, Allotment details.
- Settlement related-A/C transfer, Intra-Settlement, Inter-Settlement, Delivery Out, Receipt-In.
- Corporate Action related.
- Pledging details.
- Security Lending report.

SHR Module :



Beneficiary Details: Details regarding various ISINs are available from this module.

Confirmations: SHRs can confirm Demat / Remat requests from this module.

Corporate Action / Public Offer: Corporate action related information can be obtained from this module.

System Security: This module is used to create user groups, user profiles and managing user passwords.

Inquiries: This module is used to get information regarding database and System Security profile. The details of information available from here are explained below.

Database related information: Pending Demat/Remat confirmation status Information, Top holder details, Benpos download history, ISIN and BP master details, Audit report, etc. information can be obtained from these sub-menus.

MIS: Information related to system security profile is also available from here.

Reports: NSDL Application has been designed to provide the following customised reports using the Reports module:

- ISIN Master Report.
- BP Master.

- Demat Request Number (DRN) confirmation report.
- Remat Request Number (RRN) confirmation report.
- Inter-Depository Transfer Report.
- Corporate Action/ Public Offer report.
- ISIN Change report.
- Beneficiary Position report - Top Holder list / Pattern of Holding report.

Database Management Activities

Master Download: Whenever a BP becomes functional, initial messages are sent to the BP as a bulk download known as Master Download. This comprises messages like CC calendar, ISIN details, Other Business Partner details, etc. Thus, details of new securities made available for demat; new DPs/R&T Agents joining NSDL system can be known by observing these downloads on a daily basis.

Database Reorganisation: Data stored in the form of tables (rows and columns) becomes fragmented after regular updates, insertion of new records and deletion/ modification of old records, which results in poor performance of the system. Database Reorganisation (Re-Indexing, CheckDB, etc) is carried out by the BP in co-ordination with NSDL helpdesk as a corrective action.

Software Releases: NSDL Application software is upgraded from time to time to include new features. This requires BPs to upgrade their application according to the instructions (Manuals, DAT, Schedule) received from NSDL.

Data Import/Export: Data can be imported into NSDL Application from the back-office system or can be exported to the back-office system from NSDL Application software using standard file formats prescribed by NSDL for import/export of data. The following import/export facilities are available at present:

IMPORT / EXPORT	DP	CC	SHR
<i>EXPORT :</i>			
ISIN Master	Y	Y	Y
BP Master	Y	Y	Y
Client Master	Y	Y	
CC Calendar	Y	Y	
Changed Order for the day	Y	Y	
Statement of holding	Y	Y	
Statement of Transaction	Y	Y	
Security Lending / Borrowing	Y	Y	
Delivery out Statement		Y	
Irreversible Delivery Out Export		Y	
Beneficiary Position (BenPos)			Y
Signature Export			Y
Demat / Remat Request			Y
Public Offer Application Export			Y
Public Offer Allotment Export			Y
<i>IMPORT :</i>			
DPM Transaction	Y	Y	
Client Master	Y	Y	
Branch Master	Y	Y	
Receipt In Statement		Y	
Corporate Action (CA) Import			Y
Demat / Remat Confirmation			Y
Bulk Verify Release Import			Y

Recommended Server Configuration

The recommended server configuration is dependent on the volume of business of the Participant.
CPU (P-IV 3.0 GHz or above)

Server Type	CPU	RAM (MB)	Number of Client Machines	Number of Client Accounts	Number of CM Accounts	Number of Transaction /day*
Desktop as Server	Single	512	3	75000	50	15000
Entry Level Server (without Hardware RAID)	Single	512	3	75000	50	15000
Entry level server (with Hardware RAID)	Single	512	5	100000	50	22500
High End Server	Single	1024	15	150000	200	40000
High End Server	Dual	2048	25	500000	1000	100000

***Note:** Number of transaction submitted should not be more than 20% of total transactions per day in an hour or 50% of total transactions per day in 3 hours.

If the volume exceeds any of the above limits then it is recommended that an additional Windows 2000 Server be installed for the excess volume.

Recommended configuration for replacement of the DPM Server for the above- mentioned categories is as follows:

Description	Hardware	Software
High End Server	Dual CPU Intel PIV / Xeon, with CPU Speed of 3.0 GHz or higher	MS Windows 2000 Server (License to be procured by the participants)
	Minimum 1 GB RAM	Anti-Virus Software for MS Windows 2000 Server (License to be procured by Participants)
	2MB L2 Cache	DPM Application Software (Provided by NSDL)
	PCI architecture with min.5 I/O slots	MS SQL 2000 Server Licence (to be procured by the Participants)

	14" Colour monitor / Keyboard/ Mouse	WinZip (licensed)/ Zipit Fast software##
	Ethernet Card	Server Management software*
	PCI based SCSI RAID Controller to support RAID-1 to RAID-5 implementation of SCSI Hard Disks (RAID Controller)	
	1 parallel port, 4 USB ports & 2 fast serial ports#	
	4mm, 20/40 GB Digital Audio Tape (DAT) drive (HP/Exabyte/Sony) operating with 90m, 120m & 150m DAT cartridges and interfacing with SCSI Controller (Used for Back-up purpose)	
	CD ROM drive(min 52x) to interface with SCSI or IDE Controller	
	Operating System Harddisk :1x146 GB Non Hot Swap/ Hot Swap SCSI HDD or 80 GB IDE/SATA HDD for Bootable Partition & interface to the Standard SCSI/IDE/ SATA Controller (Generally, On-board Controller) Note: RAID implementation for operating system is optional.	
	Database Harddisk : 2x146 GB Non Hot Swap/ Hot Swap SCSI HDDs for RAID-1 or 3x146 GB Non Hot swap SCSI HDDs for RAID-5 implementation & interface to the above RAID controller.	
Entry Level Server (with Hardware RAID)	Single CPU, Intel PIV/ Xeon, with CPU Speed of 3.0 GHz or higher	MS Windows 2000 Server (License to be procured by the participants)
	Minimum 1 GB RAM	Anti-Virus Software for MS Windows 2000 Server (License to be procured by Participants)
	256/512KB/1MB/2 MB L2 Cache	DPM Application Software (Provided by NSDL)

	PCI architecture with min.5 I/O slots	MS SQL 2000 Server Licence (to be procured by the Participants)
	14" Colour monitor / Keyboard/ Mouse	WinZip (licensed)/ Zipit Fast software ##
	Ethernet Card	Server Management software*
	PCI based SCSI RAID Controller to support RAID-1 to RAID-5 implementation of SCSI Hard Disks (RAID Controller)	2 fast serial ports #
	1 parallel port, 3 USB ports &	
	4mm, 20/40 GB Digital Audio Tape (DAT) drive (HP/Exabyte/Sony) operating with 90m, 120m & 150m DAT cartridges and interfacing with SCSI Controller (Used for Back-up purpose)	
	CD ROM drive(min 52x) to interface with SCSI or IDE Controller	
	Operating System Harddisk : 1x146 GB Non Hot Swap/ Hot Swap SCSI HDD Or 80 GB IDE /SATA HDD for Bootable Partition & interface to the Standard SCSI/ IDE/SATA Controller (Generally, On-board Controller) Note: RAID implementation for operating system is optional.	
	Database Harddisk : 2x146 GB Non Hot Swap/ Hot Swap SCSI HDDs for RAID-1 implementation & interface to the above RAID controller.	
Entry Level Server (without Hardware RAID) for Low End DP/SR	Intel PIV with 3.0 GHz or Higher CPU	MS Windows 2000 Server (License to be procured by the participants)
	Minimum 512 MB DDR RAM	Anti-Virus Software for MS Windows 2000 Server (License to be procured by Participants)

	256/512KB/1MB/2 MB L2 Cache	DPM Application Software (Provided by NSDL)
	PCI Architecture with min 3 I/O Slots	MS SQL 2000 Server Licence (to be procured by the Participants)
	2*146 GB (SCSI) or 2*80 GB (IDE/ SATA) Hard Disk Drive to be installed in RAID 1 with Software RAID.	WinZip (licensed)/ Zipit Fast software ##
	14" Colour monitor / Keyboard/ Mouse	Server Management software*
	Ethernet Card	
	CD ROM drive(min 52x) to interface with SCSI or IDE Controller	
	Internal SCSI card to support DAT drive	
	20/40 GB Internal / External DAT Drive (from the existing SERVER) or	
	750 MB Zip Drive . DVD Writer option may also be considered. (Devices used for back-up purpose).	
	1 parallel port, 3 USB ports & 2 fast serial ports#	
Desktop as Server for Low End DP/SR	Intel PIV/ Celeron with 3.0 GHz or Higher CPU	MS Windows 2000 Server (License to be procured by the participants)
	Minimum 512 MB System RAM	Anti-Virus Software for MS Windows 2000 Server (License to be procured by Participants)
	Minimum 128 KB Cache (Celeron CPU), 512KB Cache (PIV CPU)	DPM Application Software (Provided by NSDL)
	PCI Architecture with min 3 I/O Slots	MS SQL 2000 Server Licence (to be procured by the Participants)

	2*146 GB (SCSI) or 2*80 GB (IDE/ SATA) Hard Disk Drive to be installed in RAID 1 with Software RAID	WinZip (licensed)/ Zipit Fast software##
	14" Colour monitor / Keyboard/ Mouse	Server Management software*
	Ethernet Card	
	CD ROM drive(min 52x) to interface with SCSI or IDE Controller	
	DVD Writer or 750 MB Zip Drive (Devices used for Back-up purpose)	
	1 parallel port, 4 USB ports & 2 fast serial ports#	
Client/Node	Intel Pentium PII/ PIII / PIV / Celeron (333 Mhz or Higher CPU)	Windows 2000 Professional (To be procured by Participants)
	Minimum 64 MB RAM	Anti-Virus Software for Windows 2000 Professional (to be procured by Participants)
	PCI Architecture with min 3 I/O Slots	WinZip (licensed)/ Zipit Fast software## (To be procured by Participants)
	80 GB (IDE / SATA) Hard Disk Drive	MS-SQL Client License (to be procured by Participant for each desktop)
	14" Colour monitor / Keyboard/ Mouse	
	Ethernet Card	
	1 parallel port, 3 USB ports & 2 fast serial ports#	
Router	With 1 Ethernet Port, 2 Serial Ports with V.24 Interface Cable For VSAT Users or V.35 custom made cable for Leased line user.	Router IOS Ver 12.2 or higher (Cisco)Router IOS Ver 5.4_LAN_V340/V342 or higher (Motorola)
Modem & Telephone Line	"Sync / Async " Dial up modem and Telephone line with STD facility	Nil

Scanner	Flatbed Scanner which is compatible with Windows 2000 and TWAIN Standards (To be procured by Depository Participants And Clearing Corporations only)	
UPS	Appropriate Capacity with Maintenance Free Batteries, With Minimum 30 Minutes Backup Time For Connecting Above Mentioned Equipments (Considering 1 Server,1Client, 1 Router and 1 UTP Hub Load)	Nil
Environmental	A/C to maintain the room temperature at 22oc +/- 2oc	
Printers	Laser Jet Printer	Respective Printer Drivers
	Deskjet Printer	Respective Printer Drivers
LAN HUB	UTP HUB with required Nos. of UTP cables for connecting Server, Clients & Router (Dedicated for NSDL setup)	Nil
Cables	Server 'COM' port to 'Async' Modem cable	Nil
	V.24 Interface cable for Router to 'Sync' Modem (Only in case of Leased Line Users)	

The Number of USB ports required would depend on the devices that are required to be connected to the server / client

The software Winzip (licensed copy) / Zipit Fast software is required to be installed on Windows 2000 Server and on the Client PCs of NSDL setup configured for email communication with NSDL using the Outlook Express since the contents of the mails sent to the Participants are in zipped (compressed) format.

* Server Management Software is supplied along with the MNC brand servers. For National Brand Servers, Participants are required to consult their server vendors. Participants using the "Desktop as Server" are also required to consult their vendor about the tools for monitoring the hardware health of the equipment.

Security Devices - NSDL provides "**DONGLE**" as an additional security device to be used by the Participants for carrying out their depository operations. Dongle is an external Security device which is used for application heartbeat authentication and storage of the key required by the Participants operations.

BP having below mentioned volume can avail of the Entry Level Server without hardware RAID or Desktop as Server:

DPM - DP Setup (Low end DPM)	
Max. number of client permitted without CM account	75000
Max No. of CM accounts	50
Max. Number of Transactions / day to be permitted	15000
Database size not exceeding	7GB
Maximum number of workstations permitted	3
DPM - SHR Setup	
Max. number of ISINs permitted	40
Total number of clients across all ISINs	50000
Demat confirmation per week	1000
CA / IPO per week	2
Records / CA	1000
Database size not exceeding	600 MB
Maximum number of workstations permitted	3

*- It is mandatory for all participants to install "Server Management Software". Participants may consult NSDL if specific brand of server / Desktop as server does not have their own Server Management Software.

CHAPTER 5

Service Standards

The Depositories Act, 1996 requires that clients can avail services of a depository through DPs. This requirement has created a new business entity - Depository Participant. DP has to deal in a business with the following characteristics:

- Sensitive and demanding clients.
- Intense competition on the price front due to which the profit margins are under tremendous pressure.
- Thin profit margins require high volume of clients/transactions for operating the DP services profitably.
- High volume of business is error prone unless supported by appropriate systems and quality of manpower.

The prerequisites for attracting and retaining high volume business are establishment of service standards in each area of service and consistently adhering to those standards. This chapter attempts to set out some pointers to these service standards, which the DPs may want to establish. The list is indicative and not exhaustive. The service standards may be changed / upgraded in response to client requirements and competitive market demands.

Office Ambience

The front office ambience should be pleasant and should provide convenience for the clients to conduct their transactions. The waiting space should be proportionate to the number of clients that may visit the office to conduct their business. The type of access to the different areas should match with the specific transaction requirements of the client. The following facilities should be available at every office/branch of DP:

- Provision to write instructions.
- Introductory literature/booklets.
- Display of office timings.
- Display of a list of services offered from the service centre/branch, i.e., whether account opening/demat/remat/account transfer/pledge services are available at that branch.
- Latest list of ISINs available for dematerialisation.
- Compulsory demat list.
- Display of deadline timings for various transactions.
- Settlement calendar and settlement numbers, if space for display is available.

- DP IDs, if possible.
- Rubber-stamp for cancellation of certificate.
- Inquiry counter for finding out balances in client account.
- Forms for nomination, account opening and all other forms which are not handed over to the client at the time of account opening.

Branch Office Empowerment

Modern communications technology and IT have made it possible to effectively decentralise operations even while operational reporting and supervision controls are maintained. Such decentralisation requires empowerment of branch offices.

The ability of a branch office to give good service to the client is determined by the co-ordination and communication facility between head office and the branch. Head office should take care of informational needs of the branch. This should be given extra care if the branch office is not electronically connected to head office. Head office should provide the following information on a regular/daily basis to branch office to help the branch achieve customer satisfaction.

- ISIN list available for dematerialisation.
- List of scrips included in the compulsory list.
- Adequate supply of account opening forms, nomination forms and other forms.
- Settlement calendar, settlement number and other settlement related information.
- Regular feedback on transactions as given below:
 - ⇒ Status of account opening/account numbers.
 - ⇒ Status on demat requests.
 - ⇒ Return of rejected demat requests.
 - ⇒ Status of transactions executed with particular reference to failed transactions.
 - ⇒ Information on balance inquiries.
 - ⇒ Statement of transactions and holding.
 - ⇒ Information on credits arising out of corporate actions
 - ⇒ Address to which demat documents have to be sent if branch office is expected to send the documents directly.

Account opening

As in any service industry, the first point of contact is the most important point in Customer Relationship Management. For investors the process of account opening is the first interaction with a DP. This is the stage at which the client interacts with the DP and one that will make a permanent impression about the servicing capabilities of the depository participant. Also, this

is the stage at which the client may have several questions that need to be answered and proper guidance provided. The client should be given personal attention and should be helped in completing the account opening formalities without difficulty. The client must be made aware of the structure of fees for the services and other conditions must be explained in detail. Special attention should be given to the points listed below :

- Explain the information to be given in the application form. Clarification should be given on the items like standing instructions, introduction, nomination, PAN number, importance of correct and complete bank account and address details and the care to be taken in case of joint accounts, HUF accounts, NRI accounts, etc.
- For ease of operation and elimination of redundancies, the facility of standing instruction has been provided in the account opening form. This facility enables clients to give standing instructions to DPs, at the time of opening the account itself, for receiving securities to the credit of their accounts without any further instruction from them.
- Assure the client about the time by which the account will be opened and the account number communicated to him.
- Handing over "Delivery Instructions book" with pre-printed serial number of the slips stamped with Client-ID on the slips. The client should be made aware of the need and reasons to take care in preserving and using the book.
- Explain various other forms used in the depository system.
- Ensure that a copy of the agreement including schedule of charges is given to the client.

Demat Process

The demat process requires defacing of securities which will make the security certificate undeliverable unless the demat formalities are completed. Therefore, the client should be assisted in ascertaining whether the securities in question are available for dematerialisation. Clients should be helped in filling up the demat request properly.

Demat rejection causes great inconvenience to the client. DP should attend to this area with care and caution by ensuring the despatch of DRFs and certificates to R&T Agents within seven days. In case of joint holdings, the Clients should be informed about the availability of Transposition cum Demat facility. One of the important reasons for demat rejection is signature mismatch. Taking the following precaution can reduce this:

- If the client is aware that the signature with the company and signature of the client at time of opening the account vary significantly, the client should be advised to register the new signature with the company before demat is initiated.

Trading & Settlement

This is an area where the DP must take immense care while accepting and processing requests for transfer of securities from the account of his client to another account. The aspects listed below should be kept in mind :

- Ensure that the delivery instruction book given to each client has pre-printed serial numbers and Client-ID.
- Inform clients about the pay-in deadline of the stock exchange and the deadline of the DP.
- Inform clients about the future-dated instruction facility and encourage them to use this facility.
- Each DIS received should be inwarded correctly with the date and time stamp.
- Late stamp must be affixed on the instructions received after the expiry of the deadline set by the DP.
- Ensure the correctness of execution date on the DIS.
- Verify market type and settlement number details for market transfers.
- Ensure signature on DIS matches with the records of the DP.
- Ensure that the signatures of all holders are obtained in case of joint accounts.
- If the client has not issued "standing instructions", he should be made aware that a receipt in instruction will be required to receive the credits into the account on purchase of shares.
- Clients should be made aware of the account freezing facility.

General Services

Since clients are free to choose their DPs depending on criteria like service standards, convenience of location, affordability, providing efficient and timely services is important for all DPs if they have to compete effectively. Factors in general services that they should keep in mind include:

- Timely issue of transaction statements.
- 30 days notice to clients regarding changes in the structure of fees.
- Undertake changes in client master details whenever required and intimate the clients accordingly. This will help the investor in receiving all cash corporate benefits like dividends, interest warrants, redemption payments, etc. at the new address with immediate effect.
- Provide the latest list of companies available for demat.
- Provide multiple channels of inquiry to help clients obtain answers to their questions relating to their account or to give instructions. For example, enquiries can be handled on telephone; exclusive Inquiry Counters can be set up; or as a matter of routine, information about the

balances in the account after execution of the instructions can be given on the "Instruction Acknowledgement Slip".

- Give an acknowledgement for any document that a client submits.
- Give the client a feedback on the status of his instructions, especially failed instructions.
- Maintain the critical instructions of clients and give them a feedback on each one of those instructions.
- Provide complete and timely information to the client about the new services/facilities introduced by the depository and/or DP.
- Give notice to the client about any change in the charge structure as prescribed in the DP-Client Agreement.
- List of Companies with poor performance in confirming demat request.

All the operations of a DP should be conducted with transparency and consistent service attitude to foster continuity in the commercial relationship. This is absolutely essential in a competitive environment.

CHAPTER 6

Benefits & Safety

Until the mid-1990s, the legal and regulatory framework, within which the securities market functioned in India, had weaknesses resulting from fragmentation of authority and multiplicity of rules and regulations. This created inefficiency in the enforcement of the regulations. It also led to low efficiency in the allocation and utilisation of resources between savers/investors and industrial investment. The formalities in the process of issuing securities kept the cost of issue as well as trading quite high. Also, settlement of trades was cumbersome and marked by delay, as it required physical movement of securities thus reducing liquidity in the hands of investors. The interests of the investors were subjugated to those of the market intermediaries. All these factors hampered the growth and vitality of the capital market as a whole.

To improve efficiency of the market, enhance transparency, check unfair trade practices and ensure international standards in market practices necessitated by the entry of foreign financial institutions, several measures to liberalise, regulate and develop the securities market were introduced during the mid-1990s. These apply to the primary as well as the secondary markets. Additionally, the application of IT has made the task of operations and supervision of the new system possible and efficient.

Prior to the setting up of NSE, trading on stock exchanges in India took place without the use of information technology for immediate matching or recording of trades. The system was called "out cry" - where bids and offers were matched by voice. The practice of physical trading imposed limits on trading volumes as well as the speed with which the new information was incorporated into prices. The unscrupulous operators used this information asymmetry to manipulate the market. An exploitative practice called "gala" was rampant. Some unscrupulous brokers made profit by quoting to their clients higher price than actual price at which the securities were actually bought and paying a lesser price than the price at which the securities were actually sold. The client had no means to verify the actual price since there was no access to intra day price changes that were happening at the trading ring, as only brokers and their authorised assistants could enter the ring. The electronic and now fully online trading introduced by the NSE has made such manipulation difficult. It has also improved liquidity and made the entire operation more transparent and efficient.

The erstwhile settlement system based on paper form of securities and transfer forms was inefficient. The transfer was by physical movement of paper. There had to be a physical delivery of securities - a process fraught with delays and resultant risks. It increased the risk to the buyer, due to the time that elapsed before the trades were settled.

The system of transfer of ownership of physical securities was grossly inefficient as every transfer involves physical movement of securities to the issuer for registration. The change of ownership was evidenced by an endorsement on the security certificate. In many cases the process of transfer takes much longer than the two months stipulated in the Companies Act, 1956, and a significant proportion of transactions end up as bad delivery due to faulty compliance of paper work, theft, forgery, mutilation of certificates and other irregularities. All this added to costs and delays in settlement restricted liquidity and made redressal of investor grievances time consuming.

The introduction of the depository system was an important step in the reform process. The benefits of the depository system are thus related to removal of many of the inefficiencies and problems of the erstwhile system and also to the various efficiencies created by it. Depository provides instantaneous electronic transfer of securities. This ensures transfer of securities with speed, accuracy and safety. Securities in the depository mode are dematerialised and ownership records are maintained in a book-entry form. In order to streamline both the stages of settlement process, the Depositories Act, 1996 provides for transfer of the ownership of securities by book entry without their physical movement between seller, buyer and issuer. The depository system thus removes some of the physical, structural as well as systemic risks that are inherent to the physical securities based markets.

Benefits

The direct and indirect benefits of the depository system are described in detail below.

In the depository system, the ownership and transfer of securities takes place by means of electronic book entries. At the outset, this system rids the capital market of the dangers related to handling of paper.

- ***Elimination of bad deliveries*** - In the depository environment, once the holdings of an investor are dematerialised, the question of bad delivery does not arise, i.e., their transfer cannot be rejected due to defect in the quality of the security. All possible reasons for objecting transfer of title due to deficiencies associated with transfer deed and share certificates are completely eliminated since both transfer deed and share certificates are eliminated in depository system.
- ***Elimination of all risks associated with physical certificates*** - Dealing in physical securities has associated security risks of theft of stocks, mutilation or loss of certificates during movements to and from the registrars. These expose the investor to the cost of obtaining duplicate certificates, advertisements, etc. Such problems do not arise in the depository environment.

- **No stamp duty** - There is no stamp duty for transfer of equity instruments and units of mutual funds in the depository system. In the case of physical shares, stamp duty of 0.5% is payable on transfer of shares.
- **Immediate transfer and registration of securities** - In the depository environment, once the securities are credited to the investors account on pay out, he becomes the legal owner of the securities. There is no further need to send it to the company's registrar for transfer of ownership or registration which is necessary in the case of physical securities. This process normally takes longer than the statutory prescribed period of two months thus exposing the investor to opportunity cost of delay in transfer and to risk of loss in transit. To overcome this, the normally accepted practice is to hold the securities in street names, i.e., not to register the change of ownership. However, if the investors miss a book closure, the securities are not good for delivery and the investor would also stand to lose his corporate entitlements.
- **Faster settlement cycle** - With the introduction of electronic form of settlement, Indian Capital markets have moved from 15 day long settlement cycle to T+2 settlement cycle where the settlement takes place on 2nd day from the day of trading. This enables faster turnover of stock and enhances liquidity with the investor.
- **Buyer is secured** - In the physical environment, seller was secured since the sale proceeds were always fully realisable but the buyer was not, since it was not certain whether shares purchased will get transferred or not. The market principle that buyer is king did not apply to the capital market. This situation has now been corrected.
- **Faster disbursement of non-cash corporate benefits** - NSDL provides for direct credit of non-cash corporate entitlements like rights, bonus, etc., to an investor's account, thereby ensuring faster disbursement and avoiding the risk of certificates getting lost in transit.
- **Reduction in rate of interest on loans** - Some banks provide this benefit against pledge of dematerialised securities. Dematerialised securities eliminate hassles/risks like getting securities registered in their name at the time of book closure if the pledgee defaults in repayment. Also eliminated is the risk of stocks coming under objections when they are sent to the company's registrar for registration, if the pledge has to be invoked.
- **Increase in maximum limit of advances** - This has increased from Rs. 10 lakh to Rs. 20 lakh per borrower. There is also a reduction in minimum margin from 50% to 25% by banks for advances against dematerialised securities as per the Monetary and Credit Policy of Reserve Bank of India for the first half of 1998-99.
- **Reduction in brokerage** - Since introduction of electronic settlement of securities there has been a significant fall in the brokerage charged for brokers for effecting and settling

trades of investors at the stock exchanges. This benefit is given to investors as dealing in dematerialised securities reduces their back office cost of handling paper. It also eliminates the risk of being the introducing broker.

- **Reduction in handling of huge volumes of paper** - In the physical environment, every entity involved in purchase or sale of securities was to handle papers and pass on papers to the next entity. Number of papers to handle increased with the volume of transactions. However, in the depository environment, except the delivery instruction to be given by the client/broker, there is no other paper movement. NSDL has permitted use of floppies to give debit instructions for large volumes of transactions.
- NSDL has recently introduced a common internet based platform, SPEED-e, for Clients of all DPs so that Clients can issue instructions to their DPs through Internet. Using SPEED-e the client need not write delivery instructions or visit its DP for issuing instructions. Clients can monitor the status of instructions given by them on SPEED-e on Internet.
- **Periodic status reports** - DPs need to provide periodic reports to investors on their holdings and transactions. This leads to better management control on the part of the servicing agency and better information for the investors.
- **Dematerialised securities can be delivered in the physical segment** - Securities forming a part of the SEBI specified compulsory list (wherein delivery in demat form is mandatory for all categories of investors) can be delivered in physical form in the stock exchanges connected to NSDL & CDSL. This requirement is applicable to physical deliveries wherein the number of securities is less than 500.
- **Elimination of problems related to change of address of investors, transmission, etc.** - In case of change of address or transmission of demat shares, investors are saved from undergoing the entire change procedure with each company or registrar. Investors have to only inform their DP about the change along with all relevant documents. The required changes are effected in the database of all the companies where the investor is a registered holder of securities. The investor will receive all cash corporate benefit like dividends, interest warrants, redemption money, etc. at the new address with immediate effect.
- **Elimination of problems related to nomination** - An account holder can get securities in all companies transmitted/transferred to his account by completing formalities with a single entity i.e. DP. He need not deal with all companies individually.
- **Elimination of problems related to selling securities on behalf of a minor** - NSDL system provides facility for opening demat accounts in the name of minor and holding their securities in their own name. Since, under the Contract Act, 1872, the minor is not

eligible to enter into contracts at their own, the account in the name of minor is required to be operated by their guardian. The guardian may be the natural guardian, guardian appointed by will or the guardian appointed by an order of the court. The minor's guardian will be eligible to open, operate and close the account on behalf of the minor. The guardian(s) would be signing the instruction slips to be given to the depository participant, on behalf of the minor. A minor however cannot be a joint account holder. Non cash corporate benefits arising out of bonus/rights allotment of shares are credited to the account of the minor. Cash corporate benefits will be issued by the concerned issuer of securities in the name of the minor.

- **Convenient consolidation of accounts** - If multiple accounts were opened by investors, all accounts can be consolidated into one account by giving instructions to DP. In case of physical certificates, consolidation of folios required correspondence with all the companies individually.
- **Convenient portfolio monitoring** - Client can monitor portfolio by checking a single statement of holding/transaction.
- **Newer services** - Opportunities like pledge/hypothecation and stock lending are given specifically by the depository system.
- **Increased volumes** - Due to ease in transaction and reduced costs, many players have entered/ increased their transactions. This helps in improving liquidity.

Safety

NSDL has implemented various checks and measures in the depository system to ensure safety of the investors' holdings. These include:

- A DP can begin operations only after registration by SEBI. The registration process is based on the recommendation from NSDL after undertaking their own independent assessment and evaluation. SEBI regulations have prescribed fulfillment of several criteria for becoming a DP.
- Depository Participants are allowed to effect any debit and credit to an account only on the basis of valid instructions from the client.
- There are periodic inspections into the activities of both DPs and R&T agents by NSDL. This also includes records based on which the debit/credit are effected.
- The data interchange between NSDL and its business partners is protected by standard protection measures such as encryption. This is a SEBI requirement.
- There are no direct communication links between two business partners and all communications between two business partners are routed through NSDL.

- All investors have a right to receive their transaction statement periodically from the DP.
- Every month NSDL forwards statement of account to a random sample of investors as a counter check.
- In the depository, the depository holds the investor accounts on trust. Therefore, if the DP goes bankrupt, the creditors of the DP will have no access to the holdings in the name of the clients of the DP. These investors can then either rematerialise their holdings or transfer them to a different account held with another DP.
- NSDL has a complete record of the client's transactions in addition to the records of the DP.
- **Certification in Depository Operations** - NSDL has introduced a Certification Programme in Depository Operations. This has been made compulsory for all DPs. They have to appoint at least one person qualified in this certification programme in their branches. This way, NSDL ensures that each branch of a DP which services investors has at least one person who has thorough knowledge about depository system.
- **Investor grievances** - All grievances of the investors are to be resolved by the concerned business partner within 30 days. If they fail to do so, the investor has the right to approach NSDL at the investor grievance cell of NSDL which would work towards resolution of the grievance.
- **Insurance Cover** - NSDL has taken a comprehensive insurance policy to protect the interest of the investors in cases of failure of the DP to resolve a genuine loss.
- **Computer and communication infrastructure** - NSDL and its business partners use hardware, software and communication systems which conform to industry standards. Further, the systems are accepted by NSDL only after a rigorous testing procedure. NSDL's central system comprises an IBM mainframe system with a back-up facility and a remote disaster back-up site. Details with regard to back-up system are as under:
 - *Machine level back up:* The IBM mainframe situated at 'Trade World' (NSDL's office in Mumbai) in which the data is processed has adequate redundancy built into its configuration. There is a standby central processing unit (CPU) to which processing can be switched over if the main system CPU fails. The disk has RAID implementation which ensures that a single point failure will not lead to loss of data. The system has spare disk configuration where data is automatically copied from the main disk when the first failure is encountered (due to RAID implementation - first failure does not result in loss of data). All network components like router, communication controllers, etc., have on-line redundancy and thus a failure does not result in loss of transaction.
 - *Disaster back up site:* In addition, a disaster back up site, equipped with a computer identical to the mainframe computer & computing resources, has been set up at a

remote location away from Mumbai. NSDL operates generally from its Mumbai office but often operations are conducted from the disaster back up site to ensure that the disaster site is always in working condition.

- *Back-up in case of power failure:* Continuity in power supply to the main systems is assured by providing dual uninterrupted power supply (UPS) for IBM-Mainframe and related components wherein the two UPSs are connected in tandem. In case of failure of primary UPS, the secondary UPS takes over instantaneously and thus, there is no interruption in operation.
- *Periodic Review:* The NSDL hardware, software and communication systems are continuously reviewed in order to make them more secure. These reviews are a part of an ongoing exercise wherein security considerations are given as much importance as operational efficiency.

These safety measures taken by NSDL have to be complemented by a similar set of measures at the end of each member of the depository system like the DPs, Issuers and R&T Agents.

CHAPTER 7

NSDL Charge Structure

NSDL levies charges on DPs and Issuers for different transactions. The pricing structure adopted by NSDL for DPs is two-tiered. NSDL charges the DPs on different types of transactions. DPs may pass on these as costs to the investors through their own pricing structure. DPs have the discretion to charge any fees to its Clients and may charge different types of fees to its various Clients. NSDL does not impose any controls or restrictions on the DPs in this regard. However, some of the principles that the DPs are required to follow are enumerated below :

1. Investors should be made aware of the DP's charges at the time of account opening.
2. Any change made by DPs in their pricing structure should be notified to the beneficial owners (investors/clients) at least 30 days in advance.
3. Further, that the Participant shall file the charge structure as per the format given below (in MS Excel) every year, latest by 30th April, with the Depository and also inform the Depository the changes in their charge structure before such changes become effective.

Format for filing of DP Charge Structure:

DP Name	Statutory charges at the time of account opening	Advance/Deposit	Account Maintenance	Demat	Remat	Transaction (Debit)	Pledge Creation	Pledge Creation confirmation	Pledge Closure	Pledge Closure confirmation	Pledge Invo-cation	Failed in-struction charges	Other charges, if any	Re-marks

NSDL gives adequate notice to the DPs and Issuers about changes in its charge structure. It has been revising its charge structure in the past to pass on the benefits of increase in volumes, back to the market.

The present structure of fees of NSDL is as follows:

Fee Payable By Issuers

Annual Custody Fees

- i. With effect from April 1, 2005, an Issuer of listed securities shall pay an annual custody

fee at the rate of Rs. 5 per folio (ISIN position) in NSDL, subject to a minimum amount as mentioned below, plus service tax as applicable :

Nominal Value of securities admitted (Rs.)	Amount (Rs.)
Upto 5 crore	4,000
Above 5 crore and upto 10 crore	10,000
Above 10 crore and upto 20 crore	20,000
Above 20 crore	30,000

- ii. The above fee would be applicable on all securities i.e. equity, debt, units of mutual funds, pass through certificates, certificates of deposit, commercial papers, preference shares etc., except Government securities.
- iii. The fee will be based on the total ISIN positions (folios) as on March 31, of the previous financial year.

Provided however that, in case the issued capital or ISIN positions increase during the financial year due to issue of further shares, by way of public offer, the annual custody fee would be charged on a pro-rata basis, at the time of such issue.

- iv. The fee will be charged every year, on a financial year basis and shall be payable by April 30 of that financial year.

If an issuer fails to pay the fees by the due date, the Depository may charge interest @ 12% p.a. on the amount, from the due date of payment till the payment is received by the Depository.

One-Time Custody Fees

An Issuer may pay a one-time custody fee to NSDL at the rate of 0.05% plus service tax as applicable, on the market capitalisation of the company. The market capitalisation of a company will be determined on the basis of the average market price for a period of 26 weeks proceeding the date on which the company agrees to make such payment. Consequent upon such payment, NSDL shall not levy any custody fee on the Participants or annual custody fee on the Issuer.

If a company opts to pay the aforesaid one-time fee, it will also be required to agree to pay on the newly issued shares, a one-time custody fee at the rate of 0.05% (five basis points) on the value of shares calculated on the basis of issue price of newly issued shares. In case the company does not pay this amount, NSDL shall charge annual custody fee (to the Issuer for listed securities) or

custody fee (to the Participant for unlisted securities) as per provision mentioned under the respective heads, as the case may be. However, the Issuer shall not be required to pay any one-time custody fee on any subsequent issue of Bonus shares by the company.

Joining Fee by Issuers

With effect from November 15, 2005, an Issuer of unlisted securities shall pay a joining fee of Rs. 20,000 plus taxes at the applicable rate at the time of joining NSDL, for the purpose of making its shares available for dematerialisation.

Provided however that in case the Issuer gets its securities listed on any recognised stock exchange within one year of joining NSDL, the joining fee paid by the Issuer will get adjusted against the one time custody fee or Annual Custody Fee as the case may be.

Fee for Distribution of Non-Cash Corporate Benefits (Net of service tax, as applicable)

- i. In case of offers for sale by an offerer or disinvestment by Government of India or issue of shares arising out of bonus, rights, public issues, shares split, merger, demerger, etc., a fee at the rate of Rs. 8 per record (Rs. 6 w.e.f. October 01, 2005) shall be charged to the Issuer, subject to a minimum fee of Rs.500 per corporate action.
- ii. In case of conversion of shares of non pari-passu to pari-passu, partly-paid to fully-paid etc., no fee shall be charged.
- iii. With effect from April 1, 2005, in case of issue of Commercial Papers, a flat fee of Rs.10,000 shall be levied on the Issuer for all issues of Commercial Papers during the financial year. Earlier the same was levied on a calendar year basis.
- iv. With effect from April 1, 2005, in case of issue of short term debt instruments viz., certificate of deposits, MIBOR linked papers etc., a flat fee of Rs.10,000 shall be levied on the Issuer for ten such issues made in a financial year and an additional fee of Rs.1,000 shall be levied on the Issuer for each subsequent issue. Earlier the same was levied on a calendar year basis.

Fee for details of Beneficiary Owners Position (Benpos) (Net of service tax, as applicable)

In respect of a request made by the Issuer for Beneficiary Owners Position (Benpos), other than for statutory purposes, NSDL shall levy a fee of Rs. 5,000/- in case there are upto 10,000 beneficial owners and Rs. 10,000/- for other cases. However, the weekly downloads and downloads for statutory purposes are provided free of charge.

Fee Payable By Depository Participant

Entry Fees

Each Participant shall pay, at the time of submitting its application, to the Depository, a non-refundable Entry Fee of Rs.25,000.

Security Deposit

Every Participant shall pay to the Depository Rs.10 lakh by way of interest free refundable security deposit. However, a Clearing Corporation or a Clearing House of a Stock Exchange will be exempt from payment of security deposit.

Transaction Related Fees

The following transaction related fees shall be payable by the Participants to the Depository:

Settlement fee:

- i. A settlement fee at the rate of Rs. 8 per debit instruction (Rs. 6 w.e.f. October 01, 2005) in a Client's account shall be charged to the Participant of the Client.
- ii. A settlement fee at the rate of Re.1.00 per instruction in respect of securities received from the Clearing Corporation into the Receipt-in account of each Clearing Member (CM) maintained with the Participant subject to a minimum of Rs.1000 and a maximum of Rs.20,000 per quarter per CM Account shall be charged to the Participant.
- iii. A settlement fee at the rate of Rs.8 per debit instruction (Rs. 6 per record w.e.f. October 01, 2005) for transfer of securities by way of inter-settlement transfers in the CM Account(s) shall be charged to the Participant.
- iv. A settlement fee at the rate of Rs.8 per debit instruction (Rs. 6 per record w.e.f. October 01, 2005) for transfer of securities from the CM account of a Clearing Member to the CM account of another Clearing Member shall be charged to the Participant of the delivering Clearing Member.

Provided however that no settlement fee shall be charged :

- a. in respect of commercial papers and short term debt instruments such as certificate of deposits, MIBOR linked papers etc.,
- b. in case of :
 - i. transfers necessitated by transmission;
 - ii. transfer of the accounts of Clients from one Participant to another as a consequence of expulsion or suspension of such Participant; and

- iii. transfers necessitated as a consequence of a minor demat account holder attaining age of majority;

The above point (b) is subject to the Participant submitting a claim for waiver within the stipulated time, alongwith supporting documents.

Pledge Fee

A fee at the rate of Rs.25 per instruction for creation of pledge / hypothecation shall be charged to the Participant of the pledgor/ hypothecator. No fee shall be charged when a pledge / hypothecation is closed or invoked.

Lending and Borrowing fee

A fee at the rate of Rs.25 per instruction shall be charged to the Participant of the borrower in respect of credit of securities to the account of the borrower. No fee shall be charged at the time of repay or recall of securities.

Custody Fees

A custody fee at the rate of Re.1 per quarter (Rs.4 per annum) for unlisted securities held under each ISIN in each and every account maintained with the Participant shall be charged to the Participant, on a quarterly basis.

However, in respect of the following securities, no custody fee will be levied:

- Government Securities
- National Saving Certificate (NSC)/ Kisan Vikas Patra (KVP)
- Pass Through Certificates (PTC)/Securitised instruments
- Liquid benchmark Exchange Traded Scheme
- Warehouse Receipts (Commodities)

No custody fee will be charged on the securities of companies, which have paid one-time custody fee.

No custody fee will be charged to the Participant for Listed Securities.

Fee For Dematerialisation & Rematerialisation

No fee shall be charged by the depository on dematerialisation requests. However, in case of rematerialisation request, a flat fee of Rs. 10 per certificate shall be charged to the Participant

Provided however that with effect from November 1, 2006, the Participant shall be charged the following fee for rematerialisation of securities :

- a) a fee of Rs.10 for every hundred securities or part thereof; or
- b) a flat fee of Rs.10 per certificate, whichever is higher.

Minimum Fee

In case the total fee billed to the Participant in a financial year is less than the minimum fee of Rs. 1,50,000 then the Participant shall be charged the difference thereof.

Fees for Speed-e

The fees payable for subscribing to SPEED-e are as under:

Admission Fee (non-refundable) will be Rs. 6 lakh, payable in three annual installments and Annual Fee will be Rs. 1 lakh. Details are as under :

- 1) At the time of joining - Rs.3 lakh (Rs. 2 lakh Admission Fee and Rs. 1 lakh Annual Fee for the first year)
- 2) After one year from the date of joining - Rs.3 lakh (Rs. 2 lakh Admission Fee and Rs 1 lakh Annual Fee for the second year)
- 3) After two years from the date of joining - Rs.3 lakh (Rs. 2 lakh Admission Fee and Rs.1 lakh Annual Fee for the third year)

Annual Fee: Rs. 1 lakh (Rs. 1,00,000 for the first set up and 50,000 for each additional set up subject to a maximum of Rs 3,00,000)

Quarterly Charge : Rs. 125 (For each Client Id-Smart Card User)
 Rs. 25 (For each Client Id-Password User)

Account Freezing Charge :

The Participant will charge the investors a fee of not more than Rs.125 per freeze instruction.

Fees for IDeAS

Participants who wish to subscribe to IDeAS will have to pay one time Admission fee of Rs. 25,000 and Annual fee of Rs. 10,000. However, Participants who have already subscribed to SPEED-e, get IDeAS at no additional cost.

Further, Rs. 10 per quarter is charged per client (beneficiary account) However, where the Clients (who are already subscribers of SPEED-e) of such Participants are desirous of subscribing to IDeAS, a quarterly fee of Rs. 5 per account shall be charged

Fees for Warehouse Receipts

1. The following charges will be levied by NSDL on the DPs towards demat services for warehouse receipts.

Details	Charges Payable
Transaction Charges	Rs. 8 [per debit] (Rs. 6 w.e.f. October 01, 2005)
Remat request [delivery for commodities]	Rs. 50 [per request]
Pledge charges - Pledge Creation	Rs. 25 [per request]
Pledge closure & Invocation	NIL

Salient points of the NSDL-Depository Operations Module

1. The test is of 75 minutes duration.
2. The total marks for the examination are 100.
3. Each participant should secure a minimum of 60% of the marks to be eligible to receive the certificate in NSDL - Depository Operations Module.
4. Thus a participant should secure a minimum of 60 marks out of total 100 to pass the test.
5. A participant should secure a minimum of 80% of the marks to be a certified trainer.
6. Thus a participant should secure a minimum of 80 marks out of total 100 to be certified as a trainer.

LIST OF TEST CENTRES TO APPEAR FOR NCFM EXAMINATION

TEST CENTRE CODES	TEST CENTRE	TELEPHONE AND FAX NUMBERS
1	National Stock Exchange of India Ltd. "Exchange Plaza", Bandra Kurla Complex, Bandra (East), Mumbai-400051	Tel : 022 - 26598252 022 - 26598100 - 114 Fax : 022 - 26598393
2	National Stock Exchange of India Ltd. "Thapar House", Western Wing Mezzanine Floor, Janpath Lane 124, Janpath, New Delhi – 110 001	Tel : 011-23344313-27 Fax : 011-23366658
3	National Stock Exchange of India Ltd. 1st Floor, Park View Apartments 99, Rash Behari Avenue Kolkata – 700 029	Tel : (033) 24631802-1805, 24631809-1812 (Board Nos) Fax : (033) 24631791, 24631806
4	National Stock Exchange of India Ltd. 7th Floor, Arihant Nitco Park 90, Dr. Rashakrishnan Salai Mylapore, Chennai - 600 004	Tel : 044-28475100 Fax : 044-28473633
5	National Stock Exchange of India Ltd. H No.3-6-322 Mahavir House, IInd Floor Chamber no.203 & 204 Basheerbagh, Hyderabad : 500029	Tel : 040-23227084/5 Fax : 040-23227086
6	National Stock Exchange of India Ltd. 406 Sakar II Near Ellis Bridge Ahmedabad – 380 006	Tel : 079-26580212 - 13 Fax : 079-26576123
7	Any other place (depending on demand)	

Additional information on the NCFM programme can also be obtained at NSE's web-site: www.nse-india.com or by e-mailing at ncfm@nse.co.in.