

MASTER CIRCULAR

SEBI/HO/MRD2/DDAP/CIR/P/2021/18

February 05, 2021

To,

All Depositories

Dear Sir / Madam,

Subject: Master Circular for Depositories

1. Securities and Exchange Board of India (SEBI), from time to time, has been issuing various circulars/directions to Depositories. In order to enable the users to have access to all the applicable circulars/directions at one place, Master Circular for Depositories has been prepared.
2. This Master Circular is a compilation of the relevant circulars/communications pertaining to Depositories issued by SEBI up to October 31, 2020 and shall come into force from the date of its issue. References in the Master Circular to the Statutes/Regulations which now stand repealed, have been suitably updated.
3. In case of any inconsistency between the Master Circular and the applicable circulars, the content of the applicable/ relevant circular shall prevail.
4. The Master Circular consists of four sections i.e. Beneficial Owner (BO) Accounts, Depository Participants (DP) Related, Issuer related and Depositories Related. Efforts have been made to include provisions of circulars/ communications relevant to each sections. However, cross referencing of circulars/ communications amongst the sections may exist. Users may refer other sections also for compliance to provisions applicable to them.
5. This Master Circular shall supersede previous Master Circular SEBI/HO/MRD/DP/CIR/P/118 dated October 25, 2019 and is available on SEBI website at www.sebi.gov.in.

Yours faithfully

Rishi Barua
Deputy General Manager



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SCHEDULE

List of Circulars & Communications

Section 1: Beneficial Owner (BO) Accounts

1.1 Opening of BO Account by non body corporates

1.1.1 Proof of Identity (PoI)

- i. **Permanent Account Number (PAN) to be the sole identification number for all transactions in the securities market¹**

With effect from July 02, 2007, PAN is the sole identification number for all transactions in the securities market, irrespective of the amount of transaction. A copy of the PAN card with photograph may be accepted as Proof of Identity. In this regard, intermediaries shall:-

- a. Put necessary systems in place so that the databases of the clients and their transactions are linked to the PAN details of the client.
- b. Build necessary infrastructure to enable accessibility and query based on PAN thereby enabling retrieval of all the details of the clients.
- c. Collect copies of PAN cards issued to the existing as well as new clients by the Income Tax Department and maintain the same in their record after verifying with the original.
- d. Cross-check the aforesaid details collected from their clients with the details on the website of the Income Tax Department i.e. <http://incometaxindiaefiling.gov.in/challan/enterpanforchallan.jsp>².

List of documents admissible as Proof of Identity³

- a. Unique Identification Number (UID) (Aadhaar)/ Passport/ Voter ID card/ Driving license.
- b. PAN card with photograph.
- c. Identity card/ document with applicant's Photo, issued by any of the following: Central/State Government and its Departments, Statutory/Regulatory Authorities, Public Sector Undertakings, Scheduled Commercial Banks, Public Financial Institutions, Colleges affiliated to Universities, Professional Bodies such as ICAI, ICWAI, ICSI, Bar Council etc., to their Members; and Credit cards/Debit cards issued by Banks.
- d. e-KYC service launched by UIDAI shall also be accepted as a valid process for KYC verification. The information containing the relevant client details and photograph made available from UIDAI as a result of e-KYC process shall be treated as a valid proof of Identity.⁴
- e. With a view to bring about operational flexibility and in order to ease the PAN verification process, the intermediaries may verify the PAN of their

¹ Reference: Circular MRD/DoP/Cir-5/2007 dated April 27, 2007

² Income Tax Department since changed the link for verification to:

<https://incometaxindiaefiling.gov.in/e-Filing/Services/KnowYourPanLink.html>

³ Reference: Circular MIRSD/SE/Cir-21/2011 dated October 05, 2011

⁴ Reference: Circular SEBI/MIRSD/09/2013 dated October 08, 2013

clients online at the Income Tax website without insisting on the original PAN card, provided that the client has presented a document for Proof of Identity other than the PAN card.⁵

1.1.2 Proof of Address (PoA)⁶

List of documents admissible as Proof of Address:

- (*Documents having an expiry date should be valid on the date of submission.)
- a. Passport/ Voters Identity Card/ Ration Card/ Registered Lease or Sale Agreement of Residence/ Driving License/ Flat Maintenance bill/ Insurance Copy.
 - b. Utility bills like Telephone Bill (only land line), Electricity bill or Gas bill - Not more than 3 months old.
 - c. Bank Account Statement/Passbook -- Not more than 3 months old.
 - d. Self-declaration by High Court and Supreme Court judges, giving the new address in respect of their own accounts.
 - e. Proof of address issued by any of the following: Bank Managers of Scheduled Commercial Banks/Scheduled Co-Operative Bank/Multinational Foreign Banks/Gazetted Officer/Notary public/ elected representatives to the Legislative Assembly/Parliament/Documents issued by any Govt. or Statutory Authority.
 - f. Identity card/document with address, issued by any of the following: Central/State Government and its Departments, Statutory/Regulatory Authorities, Public Sector Undertakings, Scheduled Commercial Banks, Public Financial Institutions, Colleges affiliated to Universities and Professional Bodies such as ICAI, ICWAI, ICSI, Bar Council etc., to their Members.
 - g. For FII/sub account, Power of Attorney given by FII/sub-account to the Custodians (which are duly notarized and/or apostiled or consularised) that gives the registered address should be taken.
 - h. The proof of address in the name of the spouse may be accepted.
 - i. Aadhaar Letter issued by UIDAI shall be admissible as Proof of Address in addition to Proof of Identity.⁷
 - j. e-KYC service launched by UIDAI shall also be accepted as a valid process for KYC verification. The information containing the relevant client details and photograph made available from UIDAI as a result of e-KYC process shall be treated as a valid proof of address.⁸

DP shall ensure that all documents pertaining to proof of identity and proof of address are collected from all the account holders.⁹ Submission of the aforesaid documents is the minimum requirement for opening a BO Account. DPs must verify the copy of the aforementioned documents with the original before

⁵ Reference: Circular SEBI/MIRSD/01/2013 dated January 04, 2013

⁶Reference: Circular MIRSD/SE/Cir-21/2011 dated October 05, 2011

⁷Reference: Circular MIRSD/09/2012 dated August 13, 2012

⁸ Reference: Circular SEBI/MIRSD/09/2013 dated October 08, 2013

⁹ Reference: Circular MRD/DoP/Dep/Cir-29/2004 dated August 24, 2004

accepting the same as valid. While opening a BO Account, DPs shall exercise due diligence¹⁰ while establishing the identity of the person to ensure the safety and integrity of the depository system.

1.1.3 Clarification on voluntary adaptation of Aadhaar based e-KYC process¹¹

SEBI has enabled Aadhaar based e-KYC service offered by UIDAI for KYC verification. Intermediaries have sought clarifications from SEBI on certain operational aspects of the same. It is clarified that for accessing the details enabling client identification and authentication from UIDAI based on client authorisation, on voluntary basis, intermediaries who utilize the services of KYC Service Agencies (KSAs) would be registered as KYC User Agencies (KUA) with UIDAI.¹²

- i. For entering into account based relationship, the client may provide the following information to the intermediary:
 - a) Name
 - b) Aadhaar number
 - c) Permanent Account Number (PAN)
- ii. The above information can be provided by the client electronically including through any web enabled device.
- iii. The intermediary shall perform verification of the client with UIDAI through biometric authentication (fingerprint or iris scanning). Mutual Funds can also perform verification of the client with UIDAI through One Time password (OTP) received on client's mobile number or on e-mail address registered with UIDAI provided, the amount invested by the client does not exceed Rs. 50,000 per financial year per Mutual Fund and payment for the same is made through electronic transfer from the client's bank account registered with that Mutual Fund.
- iv. PAN of such client is to be verified from the income tax website.
- v. After due validation of Aadhaar number provided by the client, the intermediary (acting as KUA) shall receive the KYC information about the client from UIDAI through KSA.
- vi. The information downloaded from UIDAI shall be considered as sufficient information for the purpose of KYC verification. The intermediary shall upload this KYC information on the KRA system in terms of KRA Regulations.
- vii. In case material difference is observed either in the name (as observed in the PAN vis-a-vis Aadhaar) or photograph in Aadhaar is not clear, the

¹⁰ Reference: Point 5 of part II on 'Customer Due Diligence' of master circular no. ISD/AML/CIR-1/2008 dated December 19, 2008

¹¹ Reference: Circular SEBI/MIRSD/09/2013 dated October 08, 2013

¹² Reference: Circular: CIR/MIRSD/29/2016 dated January 22, 2016



intermediary shall carry out additional due diligence and maintain a record of the additional documents sought pursuant to such due diligence.

- viii. The records of KYC information so received shall be maintained by the intermediary as per the SEBI Act, Regulations and various circulars issued thereunder.

1.1.4 SARAL Account Opening Form for resident individuals¹³

- i. It is gathered that a majority of new investors in the securities market begin with participation in the cash segment without obtaining various other facilities such as internet trading, margin trading, derivative trading and use of power of attorney.
- ii. The account opening process can be simplified for such individual investors. With a view to encourage their participation, it is, therefore, decided that such individual investors can open a trading account and demat account by filling up a simplified Account Opening Form ('AOF') termed as 'SARAL AOF' given at [Annexure A](#). This form will be separately available with the intermediaries and can also be downloaded from the Exchanges' and Depositories' website. The investors who open account through SARAL AOF will also have the option to obtain other facilities, whenever they require, on furnishing of additional information as per prescribed regulations/circulars.
- iii. The standard set of documents viz. Rights and Obligations document, Uniform Risk Disclosure Document and Guidance Note and documentary proof related to identity and address as specified in SEBI Circulars dated August 22, 2011 and October 5, 2011 shall continue to remain applicable. It is further clarified that the provisions laid down under the PML Act, PML Rules, SEBI Master Circular on AML dated December 31, 2010 and SEBI Circular on AML dated March 12, 2014 shall also continue to remain applicable for set of individual investors mentioned in paragraph (ii) above.
- iv. For these set of individual investors, it has been decided to simplify the requirement of submission of 'proof of address'. The matter has been examined in the light of amendment to the PML Rules, 2005 and accordingly, the requirement of submission of 'proof of address' is as follows:
 - a. Henceforth, individual investor may submit only one documentary proof of address (either residence/correspondence or permanent) while opening a trading account and / or demat account or while undergoing updation.
 - b. In case the proof of address furnished by the said investor is not the address where the investor is currently residing, the intermediary may take a declaration of the residence/correspondence address on which all correspondence will be made by the intermediary with the investor. No proof

¹³ Reference Circular MIRSD/1/2015 dated March 04, 2015

is required to be submitted for such correspondence/residence address. In the event of change in this address due to relocation or any other reason, investor may intimate the new address for correspondence to the intermediary within two weeks of such a change. The residence/ correspondence address and any such change thereof may be verified by the intermediary through 'positive confirmation' such as (i) acknowledgment of receipt Welcome Kit/ dispatch of contract notes / any periodical statement, etc. (ii) telephonic conversation; (iii) visits, etc.

1.1.5 Clarifications with regard to KYC requirement for eligible Foreign Investors¹⁴

- i. SEBI has received representations regarding operational issues in the implementation of SEBI circulars No CIR/MIRSD/16/2011 dated August 22, 2011 and MIRSD/SE/Cir-21/2011 dated October 5, 2011 on know your client norms for the securities market SEBI Circulars in case of foreign investors viz. Foreign Institutional Investors, Sub Accounts and Qualified Foreign Investors. In consultation with the Stock Exchanges, Depositories and Intermediaries, certain clarifications are issued, as given in Annexure A, with respect to these investors.
- ii. Eligible foreign investors investing under Portfolio Investment Scheme ('PIS') route shall be classified as Category I, II and III as provided in Annexure B. The intermediary shall follow risk based Know Your Client norms. Accordingly, certain clarifications are hereby issued, as given in Annexure C, based on the category of these investors.
- iii. Eligible foreign investors investing under PIS route shall be subject to KYC review as and when there is any change in material information / disclosure.

Annexure A

Sr No.	Relevant requirements on KYC Form as per SEBI Circulars dated August 22, 2011 and October 5, 2011	Clarifications for Foreign Investors viz. FIIs, Sub Accounts and QFIs
1.	Authorized signatories list with specimen signatures to be submitted.	If the client has authorized the Global Custodian - an entity regulated by an appropriate foreign regulatory authority or Local Custodian registered with SEBI as a signatory by way of a Power of Attorney ('PoA') to sign on its

¹⁴Reference CIR MIRSD/11/2012 dated September 05, 2012 and CIR MIRSD/07/2013 dated September 12, 2013

		behalf, such PoA may be accepted.
2.	Intermediary has to get the KYC form filled from the clients.	The Global Custodian or the Local Custodian may fill the KYC form, if authorized through the PoA.
3.	PAN to be taken for individual promoters holding control - either directly or indirectly, Partners/Trustees, whole time directors/two directors in charge of day to day operations and persons authorized to deal in securities on behalf of company/firm/others.	Not applicable.
4.	For foreign nationals, (allowed to trade subject to RBI and FEMA guidelines), copy of passport/PIO Card/OCI Card is mandatory.	Proof of Identity document duly attested by the entities authorized for the same as per SEBI Circular dated October 5, 2011 or authorised signatories as mentioned at point 1 above may be adequate in lieu of the passport copy.
5.	For foreign entities, CIN is optional; and in the absence of DIN no. for the directors their passport copy should be given.	CIN no. is provided as an example and requires the client's registration number in its respective country. If the foreign entity does not have CIN, the equivalent registration number of the entity may be mentioned. If it does not have any registration number, then SEBI Registration number may be mentioned. In case the directors (as per point 3 above), of the client do not have an equivalent of DIN in the client's respective jurisdiction, "Not Applicable" may be stated. Copy of the Passport may not be provided.
6.	It shall be mandatory for all the Intermediaries addressed in this circular to carry out In person verification of their clients.	In person verification is not applicable for a non-individual Client. In case of QFI - Individual Client, IPV shall be carried out by SEBI registered intermediary as per SEBI Circular dated August 22, 2011.
7.	Copies of all the documents	In the absence of originals for

	<p>submitted by the applicant should be self-attested and accompanied by originals for verification.</p> <p>In case the original of any document is not produced for verification, then the copies should be properly attested by entities authorized for attesting the documents, as per the list mentioned in the circular dated Aug 22, 2011.</p>	<p>verification, documents may be attested as per SEBI Circulars dated August 22, 2011 and October 5, 2011 or authorised signatories as mentioned at point 1 above.</p>
8.	<p>A. Copy of the balance sheets for the last 2 financial years (to be submitted every year), annual gross income and net worth details.</p> <p>B. Copy of latest share holding pattern including list of all those holding control, either directly or indirectly, in the company in terms of SEBI takeover Regulations, duly certified by the company secretary/Whole time director/MD (to be submitted every year).</p> <p>POI and POA of individual promoters holding control - either directly or indirectly.</p>	<p>A. Though it is not mandatory, the intermediaries shall carry out due diligence as per the PMLA and SEBI Master Circular on AML about the financial position of the client.</p> <p>B. List of beneficial owners with shareholding or beneficial interest in the client equal to or above 25% to be obtained. If Global Custodian / Local Custodian provides an undertaking to submit these details, then intermediary may take such undertaking only. Any change in the list to be obtained based on risk profile of the client.</p>
9.	<p>Name, residential address, photograph, POI and POA of Partners/Trustees, whole time directors/two directors in charge of day to day operations and individual promoters holding control -either directly or indirectly.</p>	<p>A. Not required if Global Custodian / Local Custodian gives an undertaking to provide the following documents as and when requested for by intermediary:</p> <ol style="list-style-type: none"> 1 A resolution from the Board of Directors and power of attorney granted to its managers, officers or employees to transact its behalf; and 2 An officially valid document in respect of managers, officers or employees holding an attorney to transact on its behalf. <p>B. If Global Custodian/Local Custodian does not provide such</p>

		undertaking as stated in A above, intermediary shall take required details from Foreign Investors.
10.	Copy of SEBI registration certificate to be provided.	Custodian shall verify the SEBI registration certificate copy with the originals or with the details available on SEBI website and provide duly certified copy of such verified SEBI registration certificate to the intermediary.
11.	Every client has to provide the trading account related details, as required by Annexure 3 to the SEBI circular dated August 22, 2011.	<p>Annexure 3 to the circular dated August 22, 2012 pertaining to trading account related details is not applicable for FIIs and Sub Accounts.</p> <p>However, Intermediaries are required to update details of any action taken or proceedings initiated against the entity by the foreign regulators or SEBI/ Stock exchanges.</p> <p>For QFI, the intermediary shall collect the following details from Annexure 3:</p> <ul style="list-style-type: none"> • Bank Account details • Depository account • Regulatory Actions as mentioned above
12.	Intermediary shall provide a set of all the executed documents to the client, free of charge.	Intermediary shall display these standard documents prescribed by SEBI on its web site, intimate the clients regarding the link and email a copy of the same to the client.
13.	Place of incorporation	If place of incorporation is not available, Intermediary should take Registered office address/ principal place of business of entity.
14.	Date of commencement of business	Not applicable

15.	Copies of the Memorandum and Articles of Association and certificate of incorporation	If FII or Sub Account does not have certificate of Incorporation or Memorandum and Articles of Association, then any reasonable equivalent legal document evidencing formation of entity may be allowed.
16.	Copy of the Board Resolution for investment in securities market.	Not applicable.

Exemptions -

In case of Sovereign Wealth Fund, Foreign Governmental Agency, Central bank, International or Multilateral organization and Central or State Government Pension Fund, the intermediary shall satisfy itself about their status and thereafter, only provisions at point 9 above shall be applicable. Further, these entities shall also be a part of KRA centralised system of KYCs.

Annexure B

Category	Eligible Foreign Investors
I.	Government and Government related foreign investors such as Foreign Central Banks, Governmental Agencies, Sovereign Wealth Funds, International/Multilateral Organizations/ Agencies.



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II.	<ul style="list-style-type: none"> a) Appropriately regulated broad based funds such as Mutual Funds, Investment Trusts, Insurance / Reinsurance Companies, Other Broad Based Funds etc. b) Appropriately regulated entities such as Banks, Asset Management Companies, Investment Managers/ Advisors, Portfolio Managers etc. c) Broad based funds whose investment manager is appropriately regulated. d) University Funds and Pension Funds e) University related Endowments already registered with SEBI as FII/Sub Account
III.	<p>All other eligible foreign investors investing in India under PIS route not eligible under Category I and II such as Endowments, Charitable Societies/Trust, Foundations, Corporate Bodies, Trusts, Individuals, Family Offices, etc.</p>

Annexure C

Document Type	Category - I	Category - II	Category - III
Entity level	Constitutive Docs	Required	Required
	Proof of Address	Required Power of Attorney, mentioning the address, is acceptable as address	Required Power of Attorney, mentioning the address, is acceptable - Address proof other than Power of Attorney should be submitted.



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		proof	as address proof	
	PAN Card	Required	Required	Required
	Financials	Exempt	Exempt	Risk based - Financial data sufficient.
	SEBI Registration Certificate	Required	Required	Required
	Board Resolution	Exempt	Required	Required
	KYC Form	Required	Required	Required
Senior Management (Whole Time Directors/ Partners/ Trustees/ etc.)	List	Required	Required	Required
	Proof Of Identity	Exempt	Exempt	Entity declares on letterhead - full name, nationality and DoB OR Photo-identity proof'
	Proof of Address	Exempt	Exempt	Declaration on letter head
	Photographs	Exempt	Exempt	Exempt
Authorized Signatories	List & Signatures	Required - List of Global Custodian ('GC') signatories can be given in case of POA to GC	Required - List of GC signatories can be given in case of POA to GC	Required
	Proof Of Identity	Not required	Not required	Not required
	Proof of Address	Not required	Not required	Not required
	Photographs	Not required	Not required	Required
Ultimate Beneficial Owner	List	Exempt	Required - Can declare "no"	Required

('UBO')			UBO over 25%"	
	Proof Of Identity	Exempt	Exempt	Required
	Proof of Address	Exempt	Exempt	Exempt
	Photographs	Exempt	Exempt	Exempt

1.1.6 Acceptance of third party address as correspondence address¹⁵

- i. SEBI has no objection to a BO authorizing the capture of an address of a third party as a correspondence address, provided that the Depository Participant (DP) ensures that all prescribed 'Know Your Client' norms are fulfilled for the third party also. The DP shall obtain proof of identity and proof of address for the third party. The DP shall also ensure that customer due diligence norms as specified in Rule 9 of Prevention of Money Laundering Rules, 2005 are complied with in respect of the third party.
- ii. The depository participant should further ensure that the statement of transactions and holding are sent to the BO's permanent address at least once in a year.
- iii. However, the above provision shall not apply in case of PMS (Portfolio Management Services) clients.

1.2 Exemptions from and clarifications relating to mandatory requirement of PAN

1.2.1 Mandatory requirement of Permanent Account Number (PAN)¹⁶

The demat accounts for which PAN details have not been verified are "suspended for debit" until the same is verified with the Depository Participant (DP). With effect from August 16, 2010 such PAN non-compliant demat accounts were also "suspended for credit" other than the credits arising out of automatic corporate actions. It was clarified that other credits including credits from IPO/FPO/Rights issue, off-market transactions or any secondary market transactions would not be allowed into such accounts.

1.2.2 Central and State Government and officials appointed by Courts¹⁷

PAN card may not be insisted upon in case of transactions undertaken on behalf of Central Government and/or State Government and where transactions are

¹⁵ Reference: Circular CIR/MRD/DP/37/2010 dated December 14, 2010

¹⁶ Reference: Circular MRD/DP/22/2010 dated July 29, 2010

¹⁷ Reference: Circular MRD/DoP/Cir-20/2008 dated June 30, 2008



conducted by officials appointed by Courts e.g. Official liquidator, Court receiver etc.¹⁸

However DPs, before implementing the above exemption, shall verify the veracity of the claim of the organizations by collecting sufficient documentary evidence in support of their claim for such an exemption.

1.2.3 Investors in Sikkim¹⁹

Investors residing in the state of Sikkim are exempted from the mandatory requirement of furnishing PAN card details for their demat accounts.²⁰ DPs shall verify the veracity of the claim of the investors that they are residents of Sikkim, by collecting sufficient documentary evidence in support of their address

1.2.4 UN entities and multilateral agencies exempt from paying taxes/ filling tax returns in India²¹

UN entities/ multilateral agencies exempt from paying taxes/filing tax returns in India are also exempt from the mandatory requirement of submitting their PAN card details, subject to the DPs collecting documentary evidence in support of such claims.

1.2.5 FIIs/Institutional Clients²²

Custodians shall verify the PAN card details of institutional clients with the original PAN card and provide duly certified copies of such verified PAN details to the brokers. This requirement is applicable in respect of institutional clients, namely, FIIs, MFs, VCFs, FVCIs, Scheduled Commercial Banks, Multilateral and Bilateral Development Financial Institutions, State Industrial Development Corporations, Insurance Companies registered with IRDA and Public Financial Institution as defined under section 4A of the Companies Act, 1956.

1.2.6 HUF, Association of Persons (AoP), Partnership Firm, unregistered Trust, Registered Trust, Corporate Bodies, minors, etc.¹⁵

The BO account shall be in the name of natural persons, PAN card details of the respective HUF, AoP, Partnership Firm, Unregistered Trust, etc shall be obtained. The PAN number of Registered Trust, Corporate Bodies and minors shall be obtained when accounts are opened in their respective names.

¹⁸ Reference: Rule 114C (1)(c) of Income Tax Rules

¹⁹ Reference: Circular MRD/DoP/Dep/Cir-09/06 dated July 20, 2006

²⁰ Reference: Hon'ble High Court of Sikkim judgment dated March 31, 2006

²¹ Reference: Circular MRD/DoP/Dep/Cir-09/06 dated July 20, 2006

²² Reference: Circular MRD/DoP/Dep/SE/Cir-13/06 dated September 26, 2006

1.2.7 Difference in maiden name and current name of investors.¹⁵

DPs can collect the PAN card proof as submitted by the account holder subject to the DPs verifying the veracity of the claim of such investors by collecting sufficient documentary evidence in support of the identity of the investors.²³

1.2.8 NRI/PIOs²⁴

Citizens of India residing outside India, foreign citizens and other persons (like companies/ trusts/ firms) having no office of their own in India may obtain PAN card based on the copy of their passport as ID proof and a copy of passport/ bank account in the country of residence as address proof, based on the Directorate of Income Tax (Systems) guidelines.²⁵

1.2.9 Foreign Portfolio Investors²⁶

PAN verification process at the time of account opening of FPIs, it is decided that the intermediaries can verify the PAN of FPIs online from website authorised by Income Tax department at the time of account-opening for FPIs. However, FPIs need to provide the copy of PAN card within 60 days of account-opening or before remitting funds out of India, whichever is earlier to their intermediaries.

Central Board of Direct Taxes (CBDT) has recently introduced a facility of E-PAN (electronic PAN card) vide press release dated April 11, 2017. Accordingly it is clarified that E-PAN issued by CBDT can also be produced by FPI for KYC compliance.²⁷

1.3 Simplification of demat account opening process²⁸

- i. SEBI has taken a number of steps in the recent past to simplify the Account opening and KYC process in the securities markets. In continuation of the efforts in the same direction, it has now been decided in consultation with both the Depositories and Associations of stock brokers and Depository Participants to further simplify and rationalize the demat account opening process.
- ii. The existing Beneficial Owner-Depository Participant Agreements shall be replaced with a common document "Rights and Obligations of the Beneficial Owner and Depository Participant". The document annexed herewith shall be

²³ Reference: Circular MRD/DoP/Dep/Cir-29/2004 dated August 24, 2004

²⁴ Reference: Circular MRD/DoP/Dep/SE/Cir-17/06 dated October 27, 2006

²⁵ Reference: Income Tax (Systems) PAN Circular No. 4 dated October 11, 2006

²⁶ Reference: Circular CIR/IMD/FPIC/123/2016 dated November 17, 2016

²⁷ Reference: Circular SEBI/HO/IMD/FIIC/CIR/P/2017/068 dated June 30, 2017

²⁸ Reference: Circular SEBI/MIRSD/ 12/2013 dated December 04, 2013

mandatory and binding on all the existing and new clients and depository participants. This will harmonize the account opening process for trading as well as demat account. This will also rationalise the number of signatures by the investor, which he is required to affix at present on a number of pages.

- iii. The Depository Participant shall provide a copy of Rights and Obligations Document to the beneficial owner and shall take an acknowledgement of the same. They shall ensure that any clause in any voluntary document neither dilutes the responsibility of the depository participant nor it shall be in conflict with any of the clauses in this Document, Rules, Bye-laws, Regulations, Notices, Guidelines and Circulars issued by SEBI and the Depositories from time to time. Any such clause introduced in the existing as well as new documents shall stand null and void.
- iv. In consultation with market participants, with a view to simplify the account opening kit, SEBI has decided that Depository Participant shall make available this document "Rights and Obligations of the Beneficial Owner and Depository Participant" to the clients, either in electronic or physical form, depending upon the preference of the client as part of account opening kit. In case the documents are made available in electronic form, Depository Participant shall maintain the logs of the same. It is also reiterated that Depositories/Depository participant shall continue to make the aforesaid document available on their website and keep the clients informed about the same.²⁹

ANNEXURE

Rights and Obligations of Beneficial Owner and Depository Participant as prescribed by SEBI and Depositories

General Clause

1. The Beneficial Owner and the Depository participant (DP) shall be bound by the provisions of the Depositories Act, 1996, SEBI (Depositories and Participants) Regulations, 1996, Rules and Regulations of Securities and Exchange Board of India (SEBI), Circulars/Notifications/Guidelines issued there under, Bye Laws and Business Rules/Operating Instructions issued by the Depositories and relevant notifications of Government Authorities as may be in force from time to time.
2. The DP shall open/activate demat account of a beneficial owner in the depository system only after receipt of complete Account opening form, KYC and supporting documents as specified by SEBI from time to time.

Beneficial Owner information

²⁹ Reference: CircularCIR/MIRSD/64/2016 dated July 12, 2016

3. The DP shall maintain all the details of the beneficial owner(s) as mentioned in the account opening form, supporting documents submitted by them and/or any other information pertaining to the beneficial owner confidentially and shall not disclose the same to any person except as required by any statutory, legal or regulatory authority in this regard.
4. The Beneficial Owner shall immediately notify the DP in writing, if there is any change in details provided in the account opening form as submitted to the DP at the time of opening the demat account or furnished to the DP from time to time.

Fees/Charges/Tariff

5. The Beneficial Owner shall pay such charges to the DP for the purpose of holding and transfer of securities in dematerialized form and for availing depository services as may be agreed to from time to time between the DP and the Beneficial Owner as set out in the Tariff Sheet provided by the DP. It may be informed to the Beneficial Owner that "no charges are payable for opening of demat accounts"
6. In case of Basic Services Demat Accounts, the DP shall adhere to the charge structure as laid down under the relevant SEBI and/or Depository circulars/directions/notifications issued from time to time.
7. The DP shall not increase any charges/tariff agreed upon unless it has given a notice in writing of not less than thirty days to the Beneficial Owner regarding the same.

Dematerialization

8. The Beneficial Owner shall have the right to get the securities, which have been admitted on the Depositories, dematerialized in the form and manner laid down under the Bye Laws, Business Rules and Operating Instructions of the depositories.

Separate Accounts

9. The DP shall open separate accounts in the name of each of the beneficial owners and securities of each beneficial owner shall be segregated and shall not be mixed up with the securities of other beneficial owners and/or DP's own securities held in dematerialized form.
10. The DP shall not facilitate the Beneficial Owner to create or permit any pledge and /or hypothecation or any other interest or encumbrance over all or any of such securities submitted for dematerialization and/or held in demat account except in the form and manner prescribed in the Depositories Act, 1996, SEBI (Depositories and Participants) Regulations, 1996 and Bye-Laws/Operating Instructions/Business Rules of the Depositories.

Transfer of Securities

11. The DP shall effect transfer to and from the demat accounts of the Beneficial Owner only on the basis of an order, instruction, direction or mandate duly authorized by the Beneficial Owner and the DP shall maintain the original documents and the audit trail of such authorizations.
12. The Beneficial Owner reserves the right to give standing instructions with regard to the crediting of securities in his demat account and the DP shall act according to such instructions.

Statement of account

13. The DP shall provide statements of accounts to the beneficial owner in such form and manner and at such time as agreed with the Beneficial Owner and as specified by SEBI/depository in this regard.
14. However, if there is no transaction in the demat account, or if the balance has become Nil during the year, the DP shall send one physical statement of holding annually to such BOs and shall resume sending the transaction statement as and when there is a transaction in the account.
15. The DP may provide the services of issuing the statement of demat accounts in an Electronic mode if the Beneficial Owner so desires. The DP will furnish to the Beneficial Owner the statement of demat accounts under its digital signature, as governed under the Information Technology Act, 2000. However, if the DP does not have the facility of providing the statement of demat account in the electronic mode, then the Participant shall be obliged to forward the statement of demat accounts in physical form.
16. In case of Basic Services Demat Accounts, the DP shall send the transaction statements as mandated by SEBI and/or Depository from time to time.

Manner of Closure of Demat account

17. The DP shall have the right to close the demat account of the Beneficial Owner, for any reasons whatsoever, provided the DP has given a notice in writing of not less than thirty days to the Beneficial Owner as well as to the Depository. Similarly, the Beneficial Owner shall have the right to close his/her demat account held with the DP provided no charges are payable by him/her to the DP. In such an event, the Beneficial Owner shall specify whether the balances in their demat account should be transferred to another demat account of the Beneficial Owner held with another DP or to rematerialize the security balances held.
18. Based on the instructions of the Beneficial Owner, the DP shall initiate the procedure for transferring such security balances or rematerialize such security balances within a period of thirty days as per procedure specified from time to

time by the depository. Provided further, closure of demat account shall not affect the rights, liabilities and obligations of either the Beneficial Owner or the DP and shall continue to bind the parties to their satisfactory completion.

Default in payment of charges

19. In event of Beneficial Owner committing a default in the payment of any amount provided in Clause 5 & 6 within a period of thirty days from the date of demand, without prejudice to the right of the DP to close the demat account of the Beneficial Owner, the DP may charge interest at a rate as specified by the Depository from time to time for the period of such default.
20. In case the Beneficial Owner has failed to make the payment of any of the amounts as provided in Clause 5&6 specified above, the DP after giving two days notice to the Beneficial Owner shall have the right to stop processing of instructions of the Beneficial Owner till such time he makes the payment along with interest, if any.

Liability of the Depository

21. As per Section 16 of Depositories Act, 1996,
 - a. Without prejudice to the provisions of any other law for the time being in force, any loss caused to the beneficial owner due to the negligence of the depository or the participant, the depository shall indemnify such beneficial owner.
 - b. Where the loss due to the negligence of the participant under Clause (1) above, is indemnified by the depository, the depository shall have the right to recover the same from such participant.

Freezing/ Defreezing of accounts

22. The Beneficial Owner may exercise the right to freeze/defreeze his/her demat account maintained with the DP in accordance with the procedure and subject to the restrictions laid down under the Bye Laws and Business Rules/Operating Instructions.
23. The DP or the Depository shall have the right to freeze/defreeze the accounts of the Beneficial Owners on receipt of instructions received from any regulator or court or any statutory authority.

Redressal of Investor grievance

The DP shall redress all grievances of the Beneficial Owner against the DP within a period of thirty days from the date of receipt of the complaint.

Authorized representative

24. If the Beneficial Owner is a body corporate or a legal entity, it shall, along with the account opening form, furnish to the DP, a list of officials authorized by it,

who shall represent and interact on its behalf with the Participant. Any change in such list including additions, deletions or alterations thereto shall be forthwith communicated to the Participant.

Law and Jurisdiction

25. In addition to the specific rights set out in this document, the DP and the Beneficial owner shall be entitled to exercise any other rights which the DP or the Beneficial Owner may have under the Rules, Bye Laws and Regulations of the respective Depository in which the demat account is opened and circulars/notices issued there under or Rules and Regulations of SEBI.
26. The provisions of this document shall always be subject to Government notification, any rules, regulations, guidelines and circulars/ notices issued by SEBI and Rules, Regulations and Bye-laws of the relevant Depository, where the Beneficial Owner maintains his/her account, that may be in force from time to time.
27. The Beneficial Owner and the DP shall abide by the arbitration and conciliation procedure prescribed under the Bye-laws of the depository and that such procedure shall be applicable to any disputes between the DP and the Beneficial Owner.
28. Words and expressions which are used in this document but which are not defined herein shall unless the context otherwise requires, have the same meanings as assigned thereto in the Rules, Bye-laws and Regulations and circulars/notices issued there under by the depository and/or SEBI.
29. Any changes in the rights and obligations which are specified by SEBI/Depositories shall also be brought to the notice of the clients at once.
30. If the rights and obligations of the parties hereto are altered by virtue of change in Rules and regulations of SEBI or Bye-laws, Rules and Regulations of the relevant Depository, where the Beneficial Owner maintains his/her account, such changes shall be deemed to have been incorporated herein in modification of the rights and obligations of the parties mentioned in this document.

1.4 *Opening of demat account in case of HUF³⁰*

It is noted that as per law, in case of HUF, shares can be held in the name of Existing Karta on behalf of HUF. Therefore, HUF demat accounts can be opened in the name of Existing Karta but not in the name of Deceased Karta and HUF entity.

After examined the issues regarding difference in opening of HUF demat account and procedure adopted in the event of death of Karta of HUF, it has

³⁰Reference: SEBI/ MRD/CDSL/ 149156 /2009 dated January 01, 2009

been decided that opening of HUF demat account and procedure adopted in the event of death of Karta of HUF shall be as per the following guidelines³¹:

1.1 Opening of HUF Demat Account

- a) The Demat account shall be opened in the name of HUF entity as the name of entity appears on the PAN Card. The PAN details of both the HUF entity and Karta of HUF shall be submitted to the Depository Participant (DP).

1.2 Death of Karta

- a) In the event of death of Karta of HUF, the name of the deceased Karta in the Beneficial Owner (BO) account shall be replaced by the new Karta appointed by the member of the HUF who in such a case shall be senior most member of the family, except married daughters.
- b) The new Karta shall submit the new list of members, a notarized copy of death certificate of the deceased Karta and a no objection from the surviving members of the HUF for him/her to act as Karta of the HUF.
- c) In the event of death of Karta of HUF, the existing BO account need not to be closed and the same account may continue. The death of Karta shall not mean that the securities lying in the BO account of the HUF is deemed to have divided among coparceners as if the partition has taken place.

1.3 Partition of HUF

- a) A total or partial partition shall be recognized only if a claim to that effect is made by one or more coparceners.
- b) An intimation of a total or partial partition shall be accompanied by a signed letter mentioning the names of the members and their confirmation of a partition having taken place.
- c) In case of partial partition of the HUF, if desired by one or more coparceners, the new Karta shall transfer shares to the said coparceners who seek partition and the BO account of the HUF shall continue. The account of such coparceners shall be treated as their individual accounts.
- d) In case of full partition of the HUF, the shares shall be divided amongst all the coparceners in the manner specified by the applicant subject to

³¹ Reference: SEBI letter No. SEBI/HO/MRD/DP/OW/2016/25739/1 & 25740/1 dated September 14, 2016

fulfillment of clause 1.3(b) above and the HUF account shall cease to exist.

1.5 *Operation of minor's demat account*³²

Under [The] Hindu Minority and Guardianship Act, 1956, permission of Court is required in the case of transfer by a natural guardian of immovable property of a minor. However, shares are not immovable property. Section 2(7) of Sale of Goods Act, 1930 includes shares within the definition of "goods". Neither the Indian Contract Act nor the Sale of Goods Act provide for transfer by sale or otherwise by guardian /natural guardian of goods/movable property in the name of minor to the effect that permission of court is required in the matter of such transfer. In the case of accounts of minor in banks also, the guardian is entitled to open, operate and even close the account also. The DP account can, therefore, be operated by a natural guardian without any order from the court though the same is neither expressly permitted nor prohibited.

1.6 *Facility for a Basic Services Demat Account (BSDA)*^{33,34}

1.6.1 All depository participants (DPs) shall make available a "Basic Services Demat Account" (BSDA) with limited services as per terms specified herein.

1.6.2 **Eligibility:** Individuals shall be eligible to opt for BSDA subject to the following conditions-

- i. All the individuals who have or propose to have only one demat account where they are the sole or first holder.
- ii. Individuals having any other demat account/s where they are not the first holder shall be eligible for BSDA in respect of the single demat account where they are sole or first holder.
- iii. The individual shall have only one BSDA in his/her name across all depositories.
- iv. Value of securities held in the demat account shall not exceed Rupees Two Lakhs at any point of time.

1.6.3 **Option to open BSDA:** The DP shall give option:

- i. To open BSDA to all eligible individuals who open a demat account after the date of applicability of this circular;
- ii. To all the existing eligible individuals to convert their demat account into BSDA on the date of the next billing cycle based on value of holding of securities in the account as on the last day of previous billing cycle.
- iii. In order to facilitate the eligible individuals to avail the benefits of BSDA, DPs are advised to convert all such eligible demat accounts into BSDA unless such Beneficial Owners (BOs) specifically opt to continue to avail the facility of a regular demat account.

1.6.4 **Charges:**

³² Reference: SMDRP/NSDL/4615 /2000 dated March 13, 2000



To further boost participation in Debt Market and based on representation received from market participants, the structure of charges for debt securities as defined in SEBI (Issue and Listing of Debt Securities) Regulations, 2008 is given below:

- i. The charge structure may be on a slab basis as indicated below³³:
 - a. No Annual Maintenance Charges (AMC) shall be levied if the value of holdings of debt securities is up to Rs. 1 lakh and a maximum AMC of Rs. 100 shall be levied if the value of holdings of debt securities is between Rs. 1,00,001 and Rs.2,00,000.
No AMC shall be levied if the value of holdings other than debt securities is below Rs. 50,000 and a maximum AMC of Rs. 100 shall be levied if the value of holdings other than debt securities is between Rs.50,001 and Rs.2,00,000.
- ii. The value of holding shall be determined by the DPs on the basis of the daily closing price or NAV of the securities or units of mutual funds, as the case may be. Where such price is not available the last traded price may be taken into account and for unlisted securities other than units of mutual funds, face value may be taken into account. The value of suspended securities may not be considered for the purpose of determining eligibility of demat account as BSDA.
- iii. If the value of holding in such BSDA exceeds the prescribed criteria at any date, the DPs may levy charges as applicable to regular accounts (non BSDA) from that date onwards.
- iv. The DPs shall assess the eligibility of the BOs at the end of the current billing cycle and convert eligible demat accounts into BSDA.

1.6.5 Services for Basic Services Demat Accounts:

- i. Transaction statements:
 - a. Transaction statements shall be sent to the BO at the end of each quarter. If there are no transactions in any quarter, no transaction statement may be sent for that quarter.
 - b. If there are no transactions and no security balance in an account, then no further transaction statement needs to be provided.
 - c. Transaction statement shall be required to be provided for the quarter in which the account became a zero balance account.
- ii. Holding Statement:
 - a. DP shall send atleast one annual physical statement of holding to the stated address of the BO in respect of accounts with no transaction and nil balance even after the account has remained in such state for one

³³Reference Circular MRD/DoP2DSA2/CIR/P/2019/51 dated April 10, 2019

- year. The DP shall inform the BO that the dispatch of the physical statement may be discontinued if the account continues to remain zero balance even after one year.
- b. One annual statement of holding shall be sent in respect of remaining accounts in physical or electronic form as opted for by the BO.
 - iii. Charges for statements: Electronic statements shall be provided free of cost. In case of physical statements, the DP shall provide at least two statements free of cost during the billing cycle. Additional physical statement may be charged at a fee not exceeding Rs.25/- per statement.
 - iv. All BOs opting for the facility of BSDA, shall register their mobile number for availing the SMS alert facility for debit transactions.
 - v. At least Two Delivery Instruction Slips (DIS) shall be issued at the time of account opening.
 - vi. All other conditions as applicable to regular demat accounts, other than the ones mentioned in this circular shall continue to apply to basic services demat account.

1.6.6 Rationalisation of services with respect to regular accounts.

In partial modification of the earlier directions, the following rationalisation measures shall be available for regular demat accounts:

- i. Accounts with zero balance and nil transactions during the year: DP shall send atleast one annual physical statement of holding to the stated address of the BO in respect of accounts with no transaction and nil balance even after the account has remained in such state for one year. The DP shall inform the BO that if no Annual Maintenance Charge (AMC) is received by the DP, the dispatch of the physical statement may be discontinued for the account which continues to remain zero balance even after one year.
- ii. Accounts which become zero balance during the year: For such accounts, no transaction statement may be sent for the duration when the balance remains nil. However, an annual statement of holding shall be sent to the BO.
- iii. Accounts with credit balance: For accounts with credit balance but no transactions during the year, half yearly statement of holding for the year shall be sent to the BO.

1.7 Change of Name in the Beneficial Owner (BO) Account³⁴

³⁴ Reference Circular CIR/MRD/DP/27/2012 dated November 01, 2012



1.7.1 In order to simplify the procedure of change of name in individual Beneficial Owner's (BO) account, it has been decided that an individual BO may be allowed to change his/ her name, subject to the submission of following documents at the time of change of name of the individual in the BO account.

i. In case of change in name on account of marriage following documents shall be submitted:

Marriage Certificate or copy of Passport showing husband's name or publication of name change in official gazette.

ii. In case of change in name on account of reasons other than marriage
Publication of name change in official gazette.

In case of change of name of an individual residing in the State of Karnataka and Punjab, for reasons other than marriage, the same may be allowed for the individual in the BO account subject to the submission of following documents³⁵:

- a) Request letter for change of name;
- b) Sworn affidavit executed before the Notary Public/ Magistrate of First Class/ Executive Magistrate mentioning the reason for change of name and his complete address;
- c) Paper publication in one local newspaper and one national newspaper; and
- d) KYC in changed name

iii. In case of change in father's name:
Publication of name change in official gazette.

1.7.2 The Depository Participants (DPs) shall collect the self-attested copies of above documents and maintain the same in their records after verifying with the original document.

1.8 Fees/Charges to be paid by BO

1.8.1 Account opening, custody and credit of securities³⁶

With effect from February 1, 2005

- i. No investor shall pay any charge towards opening of a Beneficial Owner (BO) Account except for statutory charges as applicable;
- ii. No investor shall pay any charge for credit of securities into his/her BO account; and
- iii. No custody charge shall be levied on any investor who is opening a BO account.

³⁵ Reference: Circular CIR/MRD/DP/158/2018 dated December 27, 2018

³⁶ Reference Circular MRD/DoP /SE/Dep/Cir-4/2005 dated January 28, 2005

1.8.2 Account Closure³⁷

No Account closure charges shall be levied on BO on the closure of any account.

1.8.3 Inter Depository Transfer³⁸

Inter-depository transfer of shares does not attract Stamp duty and it does not require compliance with section 108 of the Companies Act 1956.

1.8.4 Transfer of a BO Account³⁹

With effect from January 09, 2006

No charges shall be levied by a depository on any DP and by a DP on any BO when the BO transfers all the securities lying in his account to another branch of the same DP or to another DP under the same depository or another depository, provided the BO Account(s) at transferee DP and at transferor DP are one and the same, i.e. identical in all respects. In case the BO Account at transferor DP is a joint account, the BO Account at transferee DP should also be a joint account in the same sequence of ownership.

1.8.5 Account Maintenance Charges collected upfront on annual/ half yearly basis on demat accounts⁴⁰

- i. In the event of closing of the demat account or shifting of the demat account from one DP to another, the AMC collected upfront on annual/half yearly basis by the DP, shall be refunded by the DP to the BO for the balance of the quarter/s. For instance, in case annual AMC has been paid by the BO and if the BO closes/shifts his account in the first quarter, he shall be refunded the amount of the balance 3 quarters i.e. 3/4th of the AMC. Likewise, if a BO closes/shifts his account in the third quarter, he shall be refunded the amount for the balance one quarter i.e. 1/4th of the AMC.
- ii. For the purpose of the above requirement the year shall begin from the date of opening of the account in quarterly rests.
- iii. The above requirements shall be applicable to all existing and new accounts held with DPs which collect annual/half yearly upfront AMC. It is clarified that the above requirements shall not be applicable to those DPs who collect quarterly/ monthly AMC.

³⁷ Reference Circular D&CC/FITTC/CIR - 12/2002 dated October 30, 2002

³⁸ Reference Circular SMDRP/Policy/Cir-29/99 dated August 23, 1999

³⁹ Reference Circular MRD/DoP/Dep/Cir-22 /05 dated November 9, 2005

⁴⁰ Reference Circular MRD/DP/20/2010 dated July 1, 2010

1.8.6 Dissemination of tariff/charge structure of DPs on the website of depositories⁴¹

- i. DPs shall submit to their depository the tariff/charge structure every year, latest by 30th April, and also inform the depository the changes in their tariff/charge structure as and when they are effected with a view to enabling the BOs to have a comparative analysis of the tariff/charge structure of various DPs.
- ii. For this purpose depositories shall put in place necessary systems and procedures including formats, periodicity, etc. for collection of necessary data from the DPs and dissemination of the same on their website which would enable the investors to have a comparative analysis of the tariff/charge structure of various DPs.

1.9 *Safeguards to address the concerns of the investors on transfer of securities in dematerialized mode⁴²*

Following safeguards shall be put in place to address the concerns of the investors arising out of transfer of securities from the BO Accounts:

- i. The depositories shall give more emphasis on investor education particularly with regard to careful preservation of Delivery Instruction Slip (DIS) by the BOs. The Depositories may advise the BOs not to leave "blank or signed" DIS with the Depository Participants (DPs) or any other person/entity.
- ii. The DPs shall not accept pre-signed DIS with blank columns from the BO(s).
- iii. If the DIS booklet is lost / stolen / not traceable by the BO, then the BO shall immediately intimate the DP in writing about the loss. On receipt of such intimation, the DP shall cancel the unused DIS of the said booklet.
- iv. The DPs shall not issue more than 10 loose DIS to one account holder in a financial year (April to March). The loose DIS can be issued only if the BO(s) come in person and sign the loose DIS in the presence of an authorised DP official
- v. The DP shall also ensure that a new DIS booklet is issued only on the strength of the DIS instruction request slip (contained in the previous booklet) duly complete in all respects, unless the request for fresh booklet is due to loss, etc., as referred to in clause (c) above

⁴¹ Reference Circular MRD/Dep/Cir- 20/06 dated December 11, 2006

⁴²Reference Circular SEBI/MRD/Dep/Cir-03/2007 dated February 13, 2007 and Circular SEBI/MRD/Dep/Cir-03/2008 dated February 28, 2008



- vi. The DPs shall put in place appropriate checks and balances with regard to verification of signatures of the BOs while processing the DIS.
- vii. The DPs shall cross check with the BOs under exceptional circumstances before acting upon the DIS.
- viii. The DPs shall mandatorily verify with a BO before acting upon the DIS, in case of an account which remained inactive i.e., where no debit transaction had taken place for a continuous period of 6 months, whenever all the ISIN balances in that account (irrespective of the number of ISINs) are transferred at a time. However, in case of active accounts, such verification may be mandatory only if the BO account has 5 or more ISINs and all such ISIN balances are transferred at a time. The authorized official of the DP verifying such transactions with the BO, shall record the details of the process, date, time, etc., of the verification on the instruction slip under his signature.

1.10 *Delivery Instruction Slip (DIS) Issuance and Processing⁴³*

Standardization of DIS

- i. Depositories shall ensure that the DIS is standardized across all DPs in terms of:
 - a. Serial Numbering of Delivery Instruction Slips so as to enable system level checks by the depositories.
 - b. Layout and size of DIS so as to facilitate scanning and easy retrievability of records
- ii. The DIS must bear a pre-printed serial number, DP ID, and a pre-printed/pre stamped Beneficial Owner (BO) ID. The depositories shall prescribe a standard method of serial numbering and ensure that serial numbers issued by a DP are unique within the DP-ID.
- iii. DPs shall ensure that
 - a. same DIS shall not be used for giving both market and off-market instructions
 - b. a single DIS shall not be used for transactions with multiple execution dates.

Monitoring of DIS

- iv. Upon issuance of DIS booklets or loose slips to BO, the DPs shall make available immediately the following details of the DIS to the depository system electronically:
 - a. the DIS serial number
 - b. BO ID
 - c. date of issuance, and

⁴³ Circular SEBI/MRD/DOP/01/2014 dated January 07, 2014



- d. any other relevant details as decided by the depository
- v. At the time of execution of DIS, DPs shall enter the serial number of DIS in the depository system for validation. The depositories shall make provisions in their systems to facilitate the same.
- vi. In respect of all the transfer instructions on a DIS, Depositories shall validate the serial number of DIS and shall ensure that no instructions accompanied by a used DIS or unissued DIS are processed.

Scanning of DIS

- vii. DPs shall scan every DIS executed during a day along with all Annexures/ Computer printouts, if any, by the end of the next working day in the manner specified by the depository.
- viii. The depositories shall ensure that their DPs have adequate infrastructure, systems and processes to implement scanning, storage and transfer of the scanned DIS in the manner specified by the depositories.
- ix. The depositories shall ensure that the systems set up by the DPs maintain proper records of all scanned DIS images including audit trails for changes made, if any and put in place adequate checks and procedures to prevent unauthorized changes to scanned DIS.
- x. Depositories shall utilize the archived scanned images for off-site inspection.
- xi. Provisions of this circular shall not be applicable for the instructions received from the clients by the DPs electronically in a manner approved by the Depository.
- xii. Once a new DIS booklet is issued to a BO as per provisions of this circular, old DIS issued to such a BO shall not be accepted by the DP. A period of one month may be given for receipt of DIS by the BOs. The DPs may accept old DIS during this transit period.⁴⁴ All DIS issued prior to this circular shall be phased out within a period of 2 years from the date of this circular. The measures listed above under the head 'Monitoring of DIS' shall be made applicable to the DIS issued as per the provisions of this circular.

1.11 *Transmission of shares^{45,46}*

1.11.1 In cases of transmission of shares of a deceased security holder, where the shareholding in the BO account of the deceased member, as calculated on the

⁴⁴ Reference: CIR/MRD/DP/22/2014 dated July 04, 2014

⁴⁵ Reference: MRD/DoP/Dep/VM/182963/2009 dated November 12, 2009

⁴⁶ Reference: CIR/MIRSD/10/2013 dated October 28, 2013

date of application for transmission, is within the threshold limit of Rupees Five lakh in value, the DPs shall not insist on additional documents other than any one or more of the documents mentioned below.

- i. Affidavit – to the effect of the claim of legal ownership of the shares
- ii. Deed of indemnity – indemnifying the depository and DP
- iii. NOC from other legal heir(s), wherever applicable, along with the Claim Form/TRF and copy of death certificate duly notarized/ attested by a Gazetted officer or Family Settlement Deed as an alternate to the NOC duly executed by all the legal heirs of the deceased Beneficial Owner, provided that:
 - a. The Family Settlement Deed clearly vests the securities in favour of the person seeking transmission in his/ her name.
 - b. Vesting of securities in favour of the person seeking transmission in his/ her name is not contingent upon any other onerous conditions in such Family Settlement Deed.

Note: If the division of shares as per the Family Settlement Deed is amongst more than one person, then the Family Settlement Deed can be considered as an NOC for transmission of shares to each legal heirs applying for transmission. However, if DPs still have problems in comprehending the contents of the Family Settlement Deed, they should refer the matter to Depositories for necessary advice on case-to-case basis.

1.11.2 DP(s) shall automatically open new account in the name of the surviving members(s), in the same order as in the original account, on an application by the surviving member(s) based on existing documents required as per the KYC norms. Submission of new account opening form shall not be insisted upon.

1.11.3 A uniform time frame of 7 days, after receipt of all requisite documents, shall be prescribed for processing of Transmission requests.

1.11.4 In case of multiple successors, NOC of non-applicants shall be recorded on the TRF of the applicant instead of insisting separate TRF from each of the successors.

1.11.5 Nomination facility shall be encouraged by the Depositories specifically targeting BOs who have not opted for nomination. As regards new accounts, it shall be provided for at the account opening stage itself. In case the person (both an existing and new account holder) is not interested to nominate, then such person would have to give a positive declaration to that effect.

1.11.6 The depositories may permit upto three nominees with respect to a demat account.⁴⁷

1.11.7 In case of transmission of securities held in physical mode:

- i. Where the securities are held in single name with a nominee, STAs/issuer companies shall follow the standardized documentary requirement as given in Annexure A.
- ii. Where the securities are held in single name without a nominee, the STAs/issuer companies shall follow, in the normal course, the simplified documentation as given in Annexure A, for a threshold limit of Rs. 2,00,000 (Rupees Two lakh only) per issuer company. However, the Issuer companies, at their discretion, may enhance the value of such securities.

1.11.8 The timeline for processing the transmission requests for securities held in dematerialized mode and physical mode shall be 7 days and 21 days respectively, after receipt of the prescribed documents.

1.11.9 To improve the awareness of nomination facility, all Registrars to an Issue and Share Transfer Agents shall publicize nomination as an additional right available to investors, while sending communications to the investors.

1.11.10 In terms of Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) (Sixth Amendment) Regulations, 2018, succession certificate or probate of will or will or letter of administration or court decree, as may be applicable in terms of Indian Succession Act, 1925 has been prescribed as documentary requirement for transmission of securities held in physical mode.⁴⁸

1.11.11 With regard to transmission of securities held in dematerialized mode, the same is dealt in terms of bye laws of the Depositories. In order to harmonize the procedures for transmission of securities in dematerialized mode with that of transmission of securities in physical mode, it has been decided that transmission of securities held in dematerialized mode shall be dealt in line with Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) (Sixth Amendment) Regulations, 2018.

Annexure A

Documentary requirement for securities held in physical mode

⁴⁷ Reference: SEBI Letter No. MRD//DP/OW/23881/2015 dated August 24, 2015 regarding multiple nominations in demat accounts

⁴⁸ Reference Circular SEBI/HO/MIRSD/DOP/CIR/P/2019/05 dated January 04, 2019

- 1 For securities held in single name with a nominee:
 - i. Duly signed transmission request form by the nominee.
 - ii. Original or Copy of death certificate duly attested by a Notary Public or by a Gazetted Officer.
 - iii. Self attested copy of PAN card of the nominee. (*Copy of PAN card may be substituted with ID proof in case of residents of Sikkim after collecting address proof*)
- 2 For securities held in single name without a nominee, following additional documents may be sought:
 - i. Affidavit made on appropriate non judicial stamp paper - to the effect of identification and claim of legal ownership to the securities
 - ii. For value of securities upto Rs.2,00,000 (Rupees Two lakh only) per issuer company as on date of application, one or more of the following documents:
 - a. No objection certificate [NOC] from all legal heir(s) who do not object to such transmission (or) copy of Family Settlement Deed duly notarized or attested by a Gazetted Officer and executed by all the legal heirs of the deceased holder.
 - b. Indemnity made on appropriate non judicial stamp paper - indemnifying the STA/Issuer Company.
 - iii. For value of securities more than Rs.2,00,000 (Rupees Two lakh only) per issuer company as on date of application:
 - a. Succession certificate (or) Probate of will (or) Letter of Administration (or) Court decree.

End of Annexure A

1.12 Execution of Power of Attorney (PoA) by the Client in favour of the Stock Broker/ Stock Broker and Depository Participant⁴⁹

1.12.1 SEBI, vide circular no. [CIR/MRD/DMS/13/2010 dated April 23, 2010](#), issued Guidelines for execution of Power of Attorney (PoA) by the client favouring Stock Broker / Stock Broker and Depository Participant (**hereinafter referred to as “Guidelines”**). Certain clarifications were issued later vide circular no. [CIR/MRD/DMS/28/2010 dated August 31, 2010](#).

1.12.2 Paragraph 5 of the circular dated April 23, 2010, specified the following:

“Standardizing the norms for PoA must not be construed as making the PoA a condition precedent or mandatory for availing broking or depository participant services. PoA is merely an option available to the client for instructing his broker or depository participant to facilitate the delivery of shares and pay-in/pay-out of funds etc. No stock broker or depository participant shall deny services to the client if the client refuses to execute a PoA in their favour.”

1.12.3 Further, paragraph 12 – 20 of the Guidelines in SEBI circular dated April 23, 2010, also specified that the PoA shall not facilitate the stock broker to do the following:

- 3.1. Transfer of securities for off market trades.
- 3.2. Transfer of funds from the bank account(s) of the Clients for trades executed by the clients through another stock broker.
- 3.3. Open a broking / trading facility with any stock broker or for opening a Beneficial Owner account with any Depository Participant.
- 3.4. Execute trades in the name of the client(s) without the client(s) consent.
- 3.5. Prohibit issue of Delivery Instruction Slips (DIS) to beneficial owner (client).
- 3.6. Prohibit client(s) from operating the account.
- 3.7. Merging of balances (dues) under various accounts to nullify debit in any other account.
- 3.8. Open an email ID / email account on behalf of the client(s) for receiving statement of transactions, bills, contract notes etc. from stock broker / depository participant.
- 3.9. Renounce liability for any loss or claim that may arise due to any blocking of funds that may be erroneously instructed by the stock broker to the designated bank.

1.12.4 However, it has been observed that PoA is invariably obtained from the investors as part of the KYC and account opening process. Such PoA executed by clients has further found to have been misused by the stock brokers by

⁴⁹Reference: SEBI/HO/MIRSD/DOP/CIR/P/2020/158 dated August 27, 2020



taking authorization even for activities as specified in paragraph 1.12.3 above. In this regard, it is reiterated that:

- 4.1. PoA is optional and should not be insisted upon by the stock broker / stock broker depository participant for opening of the client account.
 - 4.2. PoA executed in favour of stock broker / stock broker depository participant by the client shall be utilized
 - 4.2.1. For transfer of securities held in the beneficial owner accounts of the client towards Stock Exchange related deliveries / settlement obligations arising out of trades executed by clients on the Stock Exchange through the same stock broker.
 - 4.2.2. For pledging / re-pledging of securities in favour of trading member (TM) / clearing member (CM) for the purpose of meeting margin requirements of the clients in connection with the trades executed by the clients on the Stock Exchange.
 - 4.2.3. For the limited purposes as specified in paragraph 1(iii) and 2 of the Guidelines.
 - 4.3. Paragraph 1(i) and 1(ii) of the Guidelines stands modified in accordance with paragraph 4.2.1 and 4.2.2 above. Stock Exchanges and Depositories shall ensure that PoA is not used by TM/CM/DPs for any purpose other than as specified above and in SEBI circulars dated April 23, 2010 read with SEBI circular dated August 31, 2010.
- 1.12.5 All off-market transfer of securities shall be permitted by the Depositories only by execution of Physical Delivery Instruction Slip (DIS) duly signed by the client himself or by way of electronic DIS. The Depositories shall also put in place a system of obtaining client's consent through One Time Password (OTP) for such off market transfer of securities from client's demat account.
- 1.12.6 All other provisions specified in SEBI circular dated April 23, 2010 read with SEBI circular dated August 31, 2010 shall continue to remain applicable.

1.13 *SMS alerts for demat accounts operated by Power of Attorney⁵⁰*

Subscription to SMS Alert facility for depository accounts operated through Power of Attorney (POA) would be mandatory except in case of accounts held by non-individuals, foreign nationals, and NRIs.

1.14 *Exemption from sending quarterly statements of transactions by depository participants (DPs) to clients in respect of demat accounts with no transactions and no security balances⁵¹*

⁵⁰ Reference: SEBI/MRD/DEP/VM/169784 /09 dated July 15, 2009

⁵¹ Reference: MRD/CDSL/VM/155773/2009 dated February 27, 2009, MRD/DoP/NSDL/VM/168994 /2009 dated July 07, 2009 and MRD/CDSL/VM/168989 /2009 dated July 07, 2009



- i. SEBI has provided exemption to Depository Participants from sending quarterly transaction statements to the clients in respect of demat accounts with no transactions and no security balances subject to the following conditions:
 - a. Client is informed in advance that it will not be receiving Transaction Statements for such accounts till there are any transactions or security holdings in the demat account.
 - b. KYC and PAN requirement in respect of all such depository accounts are complied.
 - c. No Annual Maintenance Charges are levied for such an account.
 - d. Information which is required to be disseminated by Participants by way of a note in the Transaction Statements will be required to be communicated to such Clients separately.
 - e. The Internal Auditor of the Participant shall comment in its internal audit report on compliance of the aforesaid requirements.
- ii. Further, depository may like to consider whether, DPs should send a consolidated Transaction Statements for the entire financial year in case of the BOs to whom quarterly Transaction Statements are not sent.

1.15 Discontinuation of sending transaction statements by depository participants to clients⁵²

SEBI allowed discontinuation of sending transaction statements by depository participants to clients subject to the following conditions:

- i. Transaction statements were returned undelivered on three consecutive occasions.
- ii. The depository participant (DP) maintains proof that the transaction statements were returned undelivered.
- iii. The transaction statements were returned undelivered for the reasons which clearly establish that the client no longer resides at the given address (i.e. party shifted, etc.) and not for other reasons (i.e. residence/office closed, address incorrect, address incomplete, etc.).
- iv. The DP informs such clients through alternative means (such as outbound call, SMS or email) that their transaction statements are returned undelivered and they need to communicate the proper (new) address.
- v. The DP ensures that on receipt of request for address modification from the client as per the stipulated procedure, the dispatch of transaction statements is immediately started. Further, the DP ensures that transaction statements that were not delivered and dispatched due to discontinuation are also dispatched immediately without any additional cost to the clients.

1.16 Exemption to Depository Participants (DPs) from providing hard copies of

⁵² Reference: MRD/NSDL/VM/158886 /2009 dated March 30, 2009

transaction statements to BOs⁵³

DPs are permitted to provide transaction statements and other documents to the BOs under Digital signature, as governed under the Information Technology Act, 2000, subject to the DP entering into a legally enforceable arrangement with the BO for the said purpose. While such practice in the aforesaid manner shall be deemed to be in compliance of the provisions of the Regulation 60 of SEBI (Depositories & Participants) Regulations, 2018; if the BO is still desirous of receiving statements in hard copy, DPs shall be duty bound to provide the same.

1.17 *Transfer of funds and securities from Clearing Member pool account to BO Account⁵⁴*

- i. Clearing members shall transfer the funds and securities from their respective pool account to the respective beneficiary account of their clients within 1 working day after the pay-out day. The securities lying in the pool account beyond the stipulated period shall attract a penalty at the rate of 6 basis point per week on the value of securities. The penalty so collected by the depositories shall be credited to a separate account with the depository and earmarked for defraying the expenses in connection with the investors' education and awareness programs conducted by the depository.
- ii. The securities lying in the pool account beyond the above period shall not be eligible either for delivery in the subsequent settlement(s) or for pledging or stock lending purpose, until the same are credited to the beneficiary accounts.
- iii. The securities lying in the Clearing member's pool account beyond the specified time period shall be identified based on the settlement number. The clearing corporation/houses of the stock exchanges shall provide the settlement-wise details of securities to the depositories and the depositories shall maintain the settlement-wise records for the purpose.
- iv. Further, stock exchanges shall execute direct delivery of securities to the investors. Clearing corporation/clearing house (CC/CH) shall ascertain from each clearing member, the beneficial account details of their respective clients due to receive pay out of securities. Based on this, the CC/CH shall send pay out instructions to the depositories so that the client receives pay out of securities directly to the extent of instructions received from the respective clearing members. To the extent of instruction not received, the securities shall be credited to the CM pool account.

⁵³ Reference Circular MRD/DoP/Dep/Cir-27/2004 dated August 16, 2004

⁵⁴Reference Circular SMDRP/Policy/Cir-05/2001 dated February 1, 2001 &Circular SEBI/MRD/Policy/AT/Cir-19/2004 dated April 21, 2004

1.18 *Consolidated Account Statement (CAS) for all securities assets⁵⁵*

- i. Pursuant to the Interim Budget announcement in 2014 to create one record for all financial assets of every individual, it has been decided to enable a single consolidated view of all the investments of an investor in Mutual Funds (MF) and securities held in demat form with the Depositories.
- ii. The Depositories and the Asset Management Companies (AMCs)/ MF-RTAs shall put in place systems to facilitate generation and dispatch of single Consolidated Account Statements (CAS) for investors having MF investments and holding demat accounts. AMCs/ RTAs shall share the requisite information with the Depositories on monthly basis to enable generation of CAS.
- iii. Consolidation of account statement shall be done on the basis of PAN. In case of multiple holding, it shall be PAN of the first holder and pattern of holding. Based on the PANs provided by the AMCs/MF-RTAs, the Depositories shall match their PAN database to determine the common PANs and allocate the PANs among themselves for the purpose of sending CAS. For PANs which are common between depositories and AMCs, the Depositories shall send the CAS. In other cases (i.e. PANs with no demat account and only MF units holding), the AMCs/ MF-RTAs shall continue to send the CAS to their unit holders as is being done presently in compliance with the Regulation 36(4) of the SEBI (Mutual Funds) Regulations.
- iv. In case investors have multiple accounts across the two depositories, the depository having the demat account which has been opened earlier shall be the default depository which will consolidate details across depositories and MF investments and dispatch the CAS to the investor. However, option shall be given to the demat account holder by the default depository to choose the depository through which the investor wishes to receive the CAS.
- v. The CAS shall be generated on a monthly basis. The AMCs /MF-RTAs shall provide the data with respect to the common PANs to the depositories within three days from the month end. The depositories shall then consolidate and dispatch the CAS within ten days from the month end.
- vi. Where statements are presently being dispatched by email either by the Mutual Funds or by the Depositories, CAS shall be sent through email. However, where an investor does not wish to receive CAS through email, option shall be given to the investor to receive the CAS in physical form at the address registered in the Depository system.
- vii. A proper grievance redressal mechanism shall be put in place by the depositories and the AMCs/MF-RTAs which shall also be communicated to the investors through CAS. AMCs/MF-RTAs would be accountable for the authenticity of the information provided through CAS in respect of MF investments and timely sharing of such information with Depositories. The

⁵⁵Circular CIR/MRD/DP/31/2014 dated November 12, 2014



Depositories would be responsible for the timely dispatch of CAS to the investors serviced by them and the demat account information.

- viii. The depositories and the AMCs/ MF-RTAs shall ensure data integrity and confidentiality in respect of the shared information. The depositories shall utilise the shared data only for the purpose of providing CAS and shall not share the same with their Depository Participants. Where Depositories are required to share such information with unregulated entities like third party printers, the depositories shall enter into necessary data confidentiality agreements with them.
- ix. The CAS shall be implemented from the month of March 2015 with respect to the transactions carried out during the month of February 2015.
- x. If an investor does not wish to receive CAS, an option shall be given to the investor to indicate negative consent. Depositories shall accordingly inform investors in their statements from the month of January 2015 about the facility of CAS and give them information on how to opt out of the facility if they do not wish to avail it.
- xi. Where such an option is exercised, the concerned depository shall inform the AMC/MF-RTA accordingly and the data with respect to the said investor shall not be shared by the AMC/MF-RTA with the depository.
- xii. If there is any transaction in any of the demat accounts of the investor or in any of his mutual fund folios, then CAS shall be sent to that investor on monthly basis. In case there is no transaction in any of the mutual fund folios and demat accounts then CAS with holding details shall be sent to the investor on half yearly basis. However, in case of demat accounts with nil balance and no transactions in securities and in mutual fund folios, the requirement to send physical statement shall be applicable as specified at para 1.6.5 and 1.6.6 of this chapter.
- xiii. Further, the holding statement dispatched by the DPs to their BOs with respect to the dormant demat accounts with balances shall also be dispatched half-yearly.
- xiv. The dispatch of CAS by the depositories to BOs would constitute compliance by the Depository Participants with requirement under Regulation 60 of SEBI (Depositories and Participants) Regulations, to provide statements of account to the BOs as also compliance by the MFs with the requirement under Regulation 36(4) of SEBI (Mutual Funds) Regulations.

1.19 *Review of Dividend option(s) / Plan(s) in case of Mutual Fund Schemes⁵⁶*

- 1.19.1 The Ninth and Eleventh Schedule of SEBI (Mutual Funds) Regulations, 1996 and SEBI circular No. SEBI/IMD/CIR No 18 / 198647 /2010 dated March 15, 2010 to be referred, which provide the accounting policies to be followed for determining distributable surplus and accounting the sale and repurchase of

⁵⁶ Reference Circular SEBI/HO/IMD/DF3/CIR/P/2020/194 dated October 05, 2020

units in the books of the Mutual Fund.

1.19.2 The aforesaid regulatory requirements, inter-alia, mandates that when units are sold, and sale price (NAV) is higher than face value of the unit, a portion of sale price that represents realized gains shall be credited to an Equalization Reserve Account and which can be used to pay dividend.

1.19.3 There is a need to clearly communicate to the investor that, under dividend option of a Mutual Fund Scheme, certain portion of his capital (Equalization Reserve) can be distributed as dividend.

1.19.4 Based on the recommendations of Mutual Funds Advisory Committee (MFAC), the following is stipulated:

1.19.4.1 All the existing and proposed Schemes of Mutual Funds shall name / rename the Dividend option(s) in the following manner:

Option / Plan	Name
Dividend Payout	Payout of Income Distribution cum capital withdrawal option
Dividend Re-investment	Reinvestment of Income Distribution cum capital withdrawal option
Dividend Transfer Plan	Transfer of Income Distribution cum capital withdrawal plan

1.19.4.2 Offer documents shall clearly disclose that the amounts can be distributed out of investors capital (Equalization Reserve), which is part of sale price that represents realized gains. Further, AMCs shall ensure that the said disclosure is made to investors at the time of subscription of such options/plans.

1.19.4.3 AMCs shall ensure that whenever distributable surplus is distributed, a clear segregation between income distribution (appreciation on NAV) and capital distribution (Equalization Reserve) shall be suitably disclosed in the Consolidated Account Statement provided to investors as required under Regulation 36(4) of SEBI (Mutual Funds) Regulations, 1996 and SEBI Circular No. CIR/MRD/ DP/ 31/2014 dated November 12, 2014.

1.19.5 The aforesaid changes shall not be treated as Fundamental Attribute Change in terms of Regulation 18 (15A) of SEBI (Mutual Funds) Regulations, 1996.

1.19.6 All other conditions specified in this regard shall remain unchanged.

1.19.7 The provisions mentioned under paragraph 1.19.4 shall be effective from April 01, 2021.

1.20 Procedure for filing and redressal of investor grievances using SCORES⁵⁷

- i. Investors who wish to lodge a complaint on SCORES are requested to register themselves on www.scores.gov.in by clicking on “Register here”. While filing the registration form, details like Name of the investor, PAN, Contact details, Email id, Aadhaar card number(optional), CKYC ID(optional) etc. (**Annexure A**) may be provided for effective communication and speedy redressal of the grievances. Upon successful registration, a unique user id and a password shall be communicated to the investor through an acknowledgement email / SMS.
- ii. An investor shall use login credentials for lodging complaint on SCORES (“Login for registered user” section). Details on how to lodge a complaint on SCORES is at **Annexure B**.
- iii. The complainant may use SCORES to submit the grievance directly to companies / intermediaries and the complaint shall be forwarded to the entity for resolution. The entity is required to redress the grievance within 30 days, failing which the complaint shall be registered in SCORES
- iv. Presently, the limitation period for filing an arbitration reference with stock exchanges is three year. In line with the same and in order to enhance ease, speed &accuracy in redressal of investor grievance, the investor may lodge a complaint on SCORES within three years from the date of cause of complaint, where;

Investor has approached the listed company or registered intermediary for redressal of the complaint **and**,

The concerned listed company or registered intermediary rejected the complaint **or**,

The complainant does not receive any communication from the listed company or intermediary concerned **or**,

The complainant is not satisfied with the reply given to him or redressal action taken by the listed company or an intermediary.

Annexure A

Details to be provided while registering on SCORES with effect from August 01, 2018:

- i. Name of the complainant*
- ii. Pan Number*
- iii. Aadhaar Number (Optional)
- iv. CKYCID(Optional)
- v. DP id & Client Id
- vi. Postal address for communication*
- vii. Contact number -Mobile*: Landline

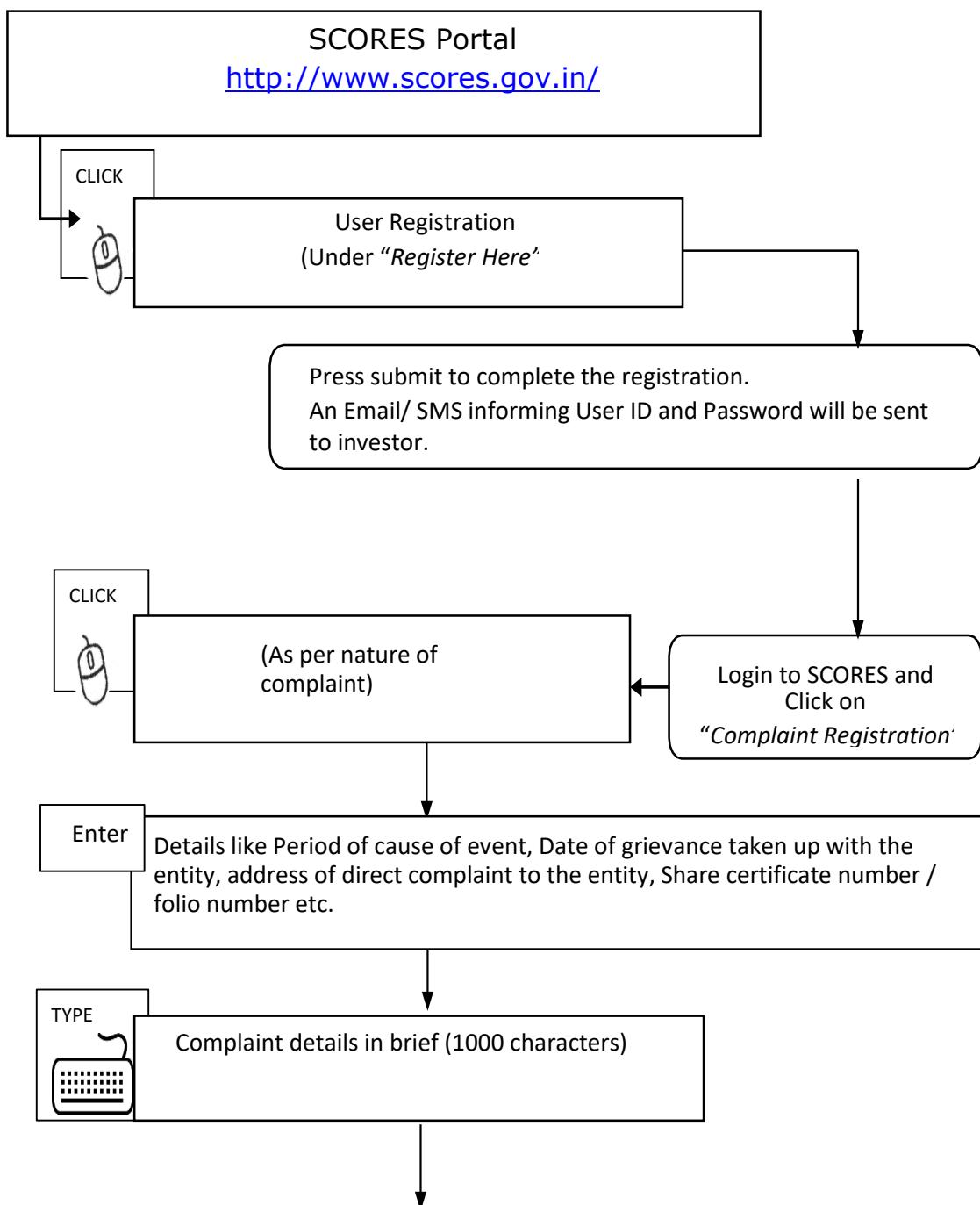
⁵⁷ Reference Circular SEBI/HO/OIAE/IGRD/CIR/P/2018/58 dated March 26, 2018

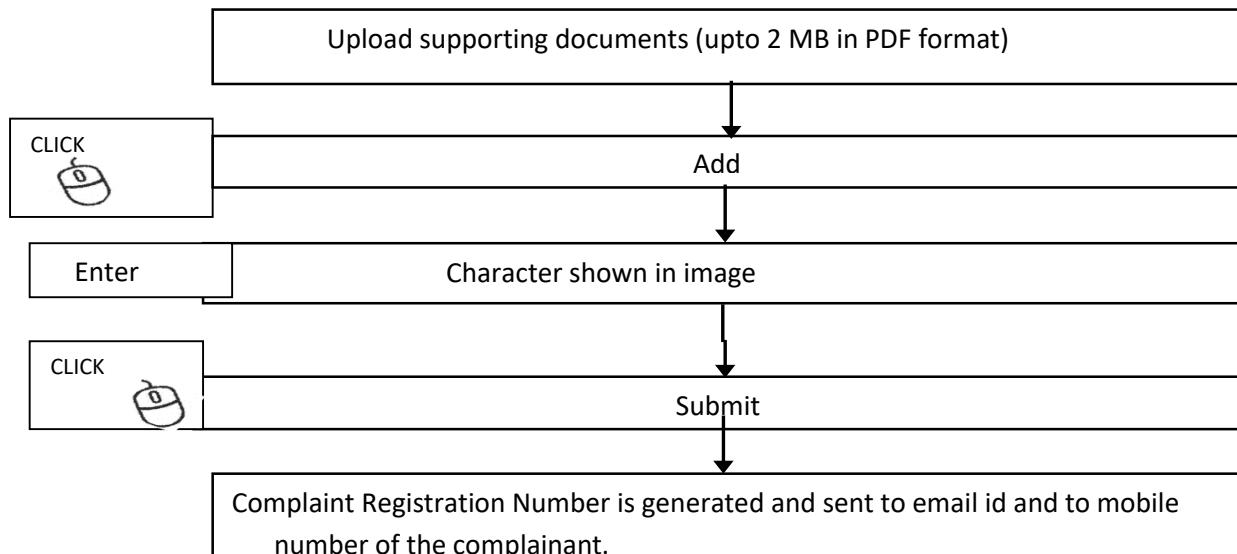
- viii. Email id* -For receipt of acknowledgement letter / updates of complaints on SCORES.
- ix. Bank account details –To facilitate direct credit of benefits to investor.
- x. Client id as given by Broker / Stock Exchange.

Note: * are mandatory fields.

Annexure B

How to lodge a complaint on SCORES with effect from August 01, 2018.





1.21 Framework for the process of accreditation of investors for the purpose of Innovators Growth Platform⁵⁸

1.21.1 Accredited Investors (AIs) for the limited purpose of Innovators Growth Platform ("IGP"), are investors whose holding in the Issuer Company, is eligible for the computation of at least 25% of the pre-issue capital in accordance with Regulation 283.(1) of the SEBI (Issue of Capital & Disclosure Requirements) Regulations, 2018 ("ICDR Regulations").

1.21.2 Accordingly, the framework for the process of accreditation of investors is detailed below:

A. Eligibility

The following entities shall be eligible to be considered as AIs:

- i. Any individual with total gross income of ₹ 50 lakhs annually and who has minimum liquid net worth of ₹ 5 crores; or
- ii. Any body corporate with net worth of ₹ 25 crores.

B. Procedure for accreditation

(a) Responsibility of Stock Exchanges/Depositories

The investor, having a demat account with a Depository, will make an application to the Stock Exchanges/Depositories in the manner prescribed by them for recognition as an AI. The Stock Exchanges /Depositories may use the services of Brokers/Depository participants respectively for such purpose. However, Stock Exchanges/Depositories shall be responsible for verification and maintenance of the AI data.

(b) Documentation Detailed Documentation required for accreditation is provided at Annexure 'A'.

1.21.3 Validity of Accreditation

The accreditation granted by the Stock Exchange/Depository shall be valid for a period of three years from the date of issue of such accreditation unless the AI becomes ineligible due to change in his/her/its financial status in which case such AI shall inform the Stock Exchange/Depository of such ineligibility.

1.21.4 Responsibility of Merchant Bankers at the time of listing on IGP with regard to AIs

At the time of application by a Company for listing on IGP, the merchant bankers shall ensure due diligence with regard to eligibility of AIs and that

⁵⁸Reference Circular SEBI/HO/CFD/DIL2/CIR/P/2019/67 dated May 22, 2019

their holding in the Company desirous of listing on IGP is in accordance with the Regulation 283.(1) of the ICDR Regulations.

Annexure-A

For accreditation as an Accredited Investor for the purpose of Innovators Growth Platform, the investor having a demat account with a Depository shall submit the following documents with the Exchanges/Depositories or Brokers/Depository Participants:

I. In case of Individual / HUF

- i) Copy of PAN Card.
- ii) Copy of Aadhaar Card or Copy of Valid Passport.
- iii) Income tax return of last 3 financial years
- iv) Certificate from practicing chartered accountant stating total gross income (annually) and liquid net worth as on date of application. Working of Liquid Net worth shall be given as an Annexure to the certificate. The same shall be calculated as follows:

Capital + Free Reserves
Less: non-allowable assets
(a) Fixed assets
(b) Pledged Securities
(c) Non-allowable securities (unlisted securities)
(d) Doubtful debts and advances*
(e) Prepaid expenses, losses
(f) Intangible assets
(g) 30% value of marketable securities

* Explanation – Includes debts/advances overdue for more than three months or given to associates and to related parties.

- v) Where the individual has been debarred or disciplinary action has been taken against investor by SEBI, RBI or any other regulatory body, then the debarment period or disciplinary action should be over. In case of a Non Resident Indian, he or she shall confirm that he or she has not been restricted from accessing securities market by the country of jurisdiction where he or she resides.
- vi) Declaration from investor which will state that:
 - (i) he/she/it, is not a wilful defaulter as defined under Regulation 2(1)(III) of SEBI (ICDR) Regulations, 2018.
 - (ii) he/she/it, is not a fugitive economic offender as defined under Regulation 2(1)(p) of SEBI (ICDR) Regulations, 2018.
 - (iii) he/she/it, is not in violation of Regulation 24 of SEBI (Delisting of Equity Shares) Regulation, 2009.
 - (iv) he/she/it, is not in violation of the restrictions imposed by SEBI under SEBI circular no. SEBI/HO/ MRD/DSA/CIR/P/2017/92 dated August 01, 2017.
 - (v) he/she/it, is in compliance with RBI regulations, if applicable.

- (vi) that the investment in the Companies are in compliance with RBI norms, if applicable.
- (vii) that the submissions made to the Exchange/Depository are true and correct and if found incorrect, the Exchange/Depository reserves the right to reject the application and take necessary action.
- (viii) that in case of ineligibility due to change in the financial status of the Accredited Investor, he/she/it shall inform the Stock Exchange/Depository of such ineligibility.

II. In case of body corporate (including LLP)

- i) Certificate of Incorporation.
- ii) If the body corporate is registered with any regulatory body such as RBI, IRDA, etc., then certificate of such valid registration from such regulatory body.
- iii) Copy of PAN card of body corporate.
- iv) Copies of Financial Statements of last 3 financial years.
- v) Copies of Income tax return of last 3 financial years.
- vi) Certificate from statutory auditor of the body corporate stating net worth as on date of application. Working of Net worth shall be given as Annexure to the certificate.
- vii) Certified copy of Board Resolution to make application for Accredited Investor as per IGP norms.
- viii) Declaration from Managing Director/Designated Partner/authorized person that:
 - (i) the body corporate or its promoters/partners or directors are not wilful defaulter as defined under Regulation 2(1)(lll) of SEBI (ICDR) Regulations, 2018.
 - (ii) the promoters/partners or directors of the body corporate are not a fugitive economic offender as defined under Regulation 2(1)(p) of SEBI (ICDR) Regulations, 2018.
 - (iii) the body corporate or its promoters/partners or whole-time directors should not be in violation of the provisions of Regulation 24 of the SEBI Delisting Regulations, 2009.
 - (iv) the body corporate or its promoters/partners, its directors should not be in violation of the restrictions imposed by SEBI under SEBI circular no. SEBI/HO/MRD/DSA/CIR/P/2017/92 dated August 01, 2017.
 - (v) the body corporate is in compliance with RBI Regulations, if applicable.
 - (vi) that the investment made in the Companies are within the limit prescribed by the RBI and if investments exceed the prescribed limit, then approval of RBI for the same has been obtained, in case the same is applicable.
 - (vii) that the submissions made to the Exchange/Depository are true and correct and if found incorrect, the



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Exchange/Depository reserves the right to reject the application and take necessary action.

(viii) that in case of ineligibility due to change in the financial status of the Accredited Investor, it shall inform the Stock Exchange/Depository of such ineligibility.

1.22 Common Application Form for Foreign Portfolio Investors⁵⁹

- 1.22.1 The Government of India vide notification number F. No. 4/15/2016-ECB dated January 27, 2020 notified the Common Application Form (CAF) for the purpose of (a) registration of Foreign Portfolio Investors (FPIs) with Securities and Exchange Board of India, (b) allotment of Permanent Account Number (PAN) and (c) carrying out of Know Your Customer (KYC) for opening of Bank & Demat Account.
- 1.22.2 The applicants seeking FPI registration shall be required to duly fill CAF and 'Annexure to CAF' and provide supporting documents and applicable fees for SEBI registration and issuance of PAN. The other intermediaries dealing with FPIs may rely on the information in CAF for the purpose of KYC.
- 1.22.3 DDP may continue to accept in-transit FPI registration applications, for a period of 60 days from date of issuance of these provisions, received in the form prescribed in operational guidelines issued on November 05, 2019.

Enclosed: 1. [CAF notified by Government of India](#)
2. [Annexure to CAF \(Declarations and Undertakings\)](#)
3. [Operational guidelines for FPIs & DDPs and FPIs](#)

1.23 Permitting Foreign Portfolio Investors (FPI) to invest in Municipal Bonds⁶⁰

- 1.23.1 RBI vide A.P. (DIR Series) Circular No. 33 dated April 25, 2019 has permitted FPIs to invest in municipal bonds.
- 1.23.2 In accordance with the provisions of Regulation 21(1)(p) of SEBI (Foreign Portfolio Investors) Regulations, 2014, FPIs are, henceforth, permitted to invest in municipal bonds.

⁵⁹ Reference: Circular IMD/FPI&C/CIR/P/2020/022 dated February 04, 2020

⁶⁰Reference: Circular No. IMD/FPIC/CIR/P/2019/62 dated May 08, 2019

Section 2: Depository Participants Related

2.1 Online Registration Mechanism for Securities Market Intermediaries⁶¹

- i. SEBI Intermediary Portal (<https://siportal.sebi.gov.in>) has been operationalized for the intermediaries to submit all the registration applications online. The SEBI Intermediary Portal includes online application for registration, processing of application, grant of final registration, application for surrender/ cancellation, submission of periodical reports, requests for change of name / address / other details etc.
- ii. All applications for registration/surrender/other requests shall be made through SEBI Intermediary Portal only. The application in respect of stock brokers/sub-broker and depository participants shall continue to be made through the Stock Exchanges and Depositories respectively.
- iii. The applicants will be separately required to submit relevant documents viz. declarations/undertakings, in physical form, only for records without impacting the online processing of applications for registration.
- iv. Where applications are made through the Stock Exchanges / Depositories, the hard copy of the applications made by their members shall be preserved by them and shall be made available to SEBI, as and when called for.

2.2 Supervision of branches of DPs⁶²

- v. To ensure compliance with Regulation 63 of the SEBI (Depositories and Participants) Regulations, 2018, and Clause 19 of the Code of Conduct for Participants contained in the Third Schedule to the Regulations the DP shall ensure that it has satisfactory internal control procedure in place, inclusive of their branch offices. DPs are therefore required in terms of these provisions to put in place appropriate mechanisms to ensure that their branches are carrying on the operations in compliance with the applicable regulations, bye-laws, etc. DPs are also required to put in place suitable internal control systems to ensure that all branches exercise due diligence in opening accounts, complying with KYC requirements, in ensuring systems safety in complying with client instructions, manner of uploading client instructions, in verifying signatures

⁶¹Reference Circular No. SEBI/HO/MIRSD/MIRSD1/CIR/P/2017/38 dated May 02, 2017

⁶²Reference Circular MIRSD/DPS-III/Cir-9/07 dated July 3, 2007



and maintaining client records, etc. DPs shall also ensure that the branches are suitably integrated.

- vi. Depositories shall examine the adequacy of the above mechanisms during their inspections of DPs. The Depositories shall also carry out surprise inspections/checks of the DP branches apart from the regular inspection of the DPs. Depositories shall also put in place appropriate mechanisms for monitoring opening of branches by DPs.

2.3 *Incentivisation to Depositories Participants (DPs)*⁶³

- i. In order to compensate the DPs towards the cost of opening and maintaining Basic Services Demat Accounts (BSDA), the depositories shall pay an incentive of Rs. 100/- for every new BSDA opened by their participants in other than the top 15 cities. The name of the top 15 cities is given in following table:

Top 15 Cities

Sr. No.	Name of the City
1.	MUMBAI
2.	DELHI
3.	AHMEDABAD
4.	BANGALORE
5.	CHENNAI
6.	PUNE
7.	KOLKATA
8.	THANE
9.	HYDERABAD
10.	SURAT
11.	JAIPUR
12.	VADODARA
13.	SECUNDARABAD
14.	RAJKOT
15.	INDORE

- ii. The incentive shall be provided at the end of the financial year only with respect to the new BSDA opened during the financial year and which displayed at least one credit in the account during the Financial Year.
- iii. Further to the above, in order to incentivize the DPs to promote holdings in the BSDA, the depositories may pay an amount of Rs. 2 per folio per ISIN to the respective depository participant (DP), in respect of the ISIN positions held in Basic Service Demat Accounts (BSDA). This incentive may be provided with respect to all the BSDA in the depository system.

⁶³ Reference Circular CIR/MRD/DP/18/2015 dated December 09, 2015

- iv. The reimbursement to DPs shall be made on an annual basis at the end of the financial year. The depositories shall set aside 20% of the incremental revenue received from the Issuers to manage the aforementioned incentive schemes. Any surplus after reimbursement of DPs may be utilized by the depositories to incentivize the DPs for promoting financial inclusion, encouraging investors to hold Mutual Fund Units in demat account and familiarizing the investors on the OFS mechanism, etc.
- v. The incentive scheme may be reviewed after a period of two years.

2.4 *Implementation of the Multilateral Competent Authority Agreement and Foreign Account Tax Compliance Act⁶⁴*

- i. It is brought to the attention of all the intermediaries that India has joined the multilateral competent Authority Agreement (MCAA) on Automatic Exchange of Financial Account Information on June 3, 2015. In terms of the MCAA, all countries which are a signatory to the MCAA, are obliged to exchange a wide range of financial information after collecting the same from financial institutions in their country/jurisdiction.
- ii. Further, on July 9, 2015 the Governments of India and United States Of America (USA) have signed an agreement to improve International tax compliance and to implement the Foreign Account Tax Compliance Act (FATCA) in India. The USA has enacted FATCA in 2010 to obtain information on accounts held by U.S taxpayers in other countries. As per the aforesaid agreement, foreign financial institutions (FFIs) in India will be required to report tax information about U.S account holders/taxpayers directly to the Indian Government which will, in turn, relay that information to the U.S Internal Revenue Services (IRS).
- iii. For implementation of the MCAA and agreement with USA, the Government of India has made necessary legislative changes to section 285BA of the Income-tax Act, 1961. Further the Government of India has notified Rules 114F to 114H (herein after referred as “the Rules”) under the Income Tax Rules, 1962 and form No. 61B for furnishing of statement of reportable account as specified in the Rules. The Rule is available at

<http://www.incometaxindia.gov.in/communications/notification/notification%20no.%2062%20dated%2007-08-2015.pdf>

- iv. All registered intermediaries are advised to take necessary steps to ensure compliance with the requirements specified in the aforesaid Rules after carrying out necessary due diligence.

2.5 *Printing of Grievances Redressal Mechanism on Delivery Instruction Form Book⁶⁵*

⁶⁴Circular No. CIR/MIRSD/2/2015 dated August 26, 2015

To promote investor awareness regarding mechanism for redressing investor grievances, the information placed below shall be printed on the inside back cover of the Delivery Instruction Form (DIF) Book issued by all Depository Participants.

In case you have grievances against a listed company or intermediary registered with SEBI, you should first approach the concerned company or intermediary against whom you have grievance. If you are not satisfied with their response, you may approach SEBI or other regulatory bodies. You can approach SEBI for following type of grievances.

Listed Companies

- Refund / Allotment/ Bonus/ Dividend/ Rights/ Redemption/ Interest
- Prelisting offer documents (shares)
- Prelisting offer documents (debentures and bonds)
- Delisting of Securities
- Buyback of Securities
- Takeover and Restructuring
- Corporate Governance and Listing conditions

Brokers and stock exchanges

- Stock Brokers
- Sub brokers
- Portfolio managers
- Stock exchanges

Registrar and Transfer Agents

Other entities

- Collective Investment Schemes
- Debenture Trustees
- Merchant Bankers
- Bankers to Issue
- Credit Rating Agencies
- Custodian of Securities
- Foreign Institutional Investors
- Underwriters
- Venture Capital Funds
- KYC Registration Agency(KRA)
- Alternative Investment Fund

Mutual Funds

Depository and Depository Participants

Information to SEBI:

- Price Manipulation
- Insider trading

You can file your complaints online at <http://scores.gov.in> or alternately send your complaints to Office of Investor Assistance and Education of SEBI at Mumbai or Regional Offices at the following addresses:

Address of SEBI Offices

⁶⁵Circular No. SEBI/MRD/DP/25/2012 dated September 21, 2012

- Office of Investor Assistance and Education, SEBI Bhavan, Plot No.C4-A, 'G' Block, Bandra Kurla Complex, Bandra (E), Mumbai 400 051 Tel: 022-26449188 / 26449199 (<http://scores.gov.in>)
- SEBI, Northern Regional Office, 5th Floor, Bank of Baroda Building, 16, Sansad Marg, New Delhi -110001 Tel: 011-23724001-05 (sebinro@sebi.gov.in)
- SEBI, Eastern Regional Office, L&T Chambers, 3rd Floor, 16, Camac Street, Kolkata - 700 016 Tel: 033-23023000. (sebiero@sebi.gov.in)
- SEBI, Southern Regional Office, 7th Floor, Overseas Towers, 756-L, Anna Salai Chennai 600 0102 □ Tel: 044-24674000/ 24674150 (sebisro@sebi.gov.in)
- SEBI, Ahmedabad Regional Office, Unit No: 002, Ground Floor, SAKAR I, Near Gandhigram Railway Station, Opp. Nehru Bridge Ashram Road, Ahmedabad - 380 009 Tel : 079-26583633-35 (sebiaro@sebi.gov.in)

For more information visit our website - <http://scores.gov.in>

2.6 Operationalisation of Central KYC Records Registry (CKYCR)⁶⁶

1. Government of India has authorized the central Registry of Securitization and Asset Reconstruction and Security interest of India (CERSAI), set up under sub-section (1) of Section 20 of Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002, to act as, and to perform the functions of, the Central KYC Records Registry under the PML Rules 2005, including receiving, storing, safeguarding and retrieving the KYC records in digital form of a client.
2. As per the 2015 amendment to PML (Maintenance of Records) Rules, 2005 (the rules), every reporting entity shall capture the KYC information for sharing with the Central KYC Records Registry in the manner mentioned in the Rules, as per the KYC template for “individuals” finalised by CERSAI.
3. Accordingly, the KYC template finalised by CERSAI shall be used by the registered intermediaries as Part I of AOF for individuals. The KYC template for “individuals” and the “Central KYC Registry Operating Guidelines 2016” for uploading KYC records on CKYCR finalised by CERSAI. In this regard, it is clarified that the requirement for Permanent Account Number (PAN) would continue to be mandatory for completing the KYC process.

2.7 e-KYC Authentication facility under section 11A of the Prevention of Money Laundering Act, 2002 by Entities in the securities market for Resident

⁶⁶ Reference Circular CIR/MIRSD/ 66 /2016 dated July 21, 2016

Investors⁶⁷ and Entities permitted to undertake e-KYC Aadhaar Authentication service of UIDAI in Securities Market⁶⁸

- 2.7.1 SEBI simplified the account opening process for investors vide Circular No. CIR/MIRSD/16/2011 dated August 22, 2011. Further, SEBI vide circular MIRSD/SE/Cir- 21/2011 dated October 05, 2011 issued guidelines for uniform KYC requirements for investors while opening accounts with any intermediary in the securities market.
- 2.7.2 SEBI vide Circular No. CIR/MIRSD/09/2012 dated August 13, 2012 clarified that after consultation with Unique Identification Authority of India (UIDAI), Government of India, it was decided that the Aadhaar Letter issued by UIDAI shall be admissible as Proof of Address in addition to its being recognized as Proof of Identity.
- 2.7.3 Subsequently, vide circular No. CIR/MIRSD/09/2013 dated October 08, 2013, SEBI clarified that in consultation with UIDAI and the market participants, it was decided to accept e-KYC service launched by UIDAI also, as a valid process for KYC verification. The information containing relevant client details and photograph made available from UIDAI as a result of e-KYC process shall be treated as sufficient Proof of identity and Address of the client. Also vide circular No. CIR/MIRSD/29/2016 dated January 22, 2016, SEBI clarified that the usage of Aadhaar card as issued by the UIDAI is voluntary.
- 2.7.4 Hon'ble Supreme Court, in its judgement dated September 26, 2018, had struck down Section 57 of the Aadhaar Act as "unconstitutional" which means that no company or private entity can seek Aadhaar identification from clients or investors.
- 2.7.5 The Aadhaar and Other Laws (Amendment) Ordinance, 2019 was promulgated on March 02, 2019 through which a new Section 11A was inserted in chapter IV of the Prevention of Money-Laundering Act, 2002. The Aadhaar and Other Laws (Amendment) Act, 2019 was notified in the Gazette of India on July 24, 2019.
- 2.7.6 The Department of Revenue (DoR), Ministry of Finance issued a circular dated May 09, 2019 on procedure for processing of applications under section 11A of the Prevention of Money Laundering Act, 2002 ("PMLA"), for use of Aadhaar authentication services by entities other than the Banking companies. In terms of the said circular, if the Central Government is satisfied with the recommendations of the Regulator and Unique Identification Authority of India ("UIDAI") and reporting entity complies with such standards of privacy and security under the Aadhaar (Targeted

⁶⁷Circular No. SEBI/HO/MIRSD/DOP/CIR/P/2019/123 dated November 05, 2019

⁶⁸Circular No. SEBI/HO/MIRSD/DOP/CIR/P/2020/80 dated May 12, 2020

Delivery of Financial and Other Subsidies, Benefits and Services) Act, 2016 (“Aadhaar Act”), and it is necessary and expedient to do so, it may by notification, permit such entity to carry out authentication of the Aadhaar number of clients using e-KYC authentication facility.

- 2.7.7 The said circular also inter-alia specified that, applications by the concerned entities under Section 11A of the PMLA for use of Aadhaar authentication services shall be filed before the Regulator, who after scrutiny shall forward the applications to UIDAI along with its recommendation. UIDAI shall scrutinize the applications received and send its recommendation to the Department of Revenue for notification under Section 11A of the PMLA. The Central Government, if satisfied with the recommendations of the Regulator and the UIDAI that the applicant fulfils all conditions under Section 11A, may by notification permit such applicant to perform authentication under clause (a) of sub-section (1) of Section 11A. At any point, after issue of such notification, based on a report of the appropriate Regulator or UIDAI or otherwise, if it is found that the reporting entity no longer fulfils the requirements for performing authentication under clause (a) of sub-section (1) of section 11A, the Central Government may withdraw the notification after giving an opportunity to the reporting entity.
- 2.7.8 Accordingly, entities in the securities market, as may be notified by the Central Government, shall be allowed to undertake Aadhaar Authentication under section 11A of the PMLA. SEBI Registered intermediaries for reasons such as online on-boarding of clients, customer convenience, increased efficiency and reduced time for client on- boarding would prefer to use Aadhaar based e-KYC facility to complete the KYC of the client.

Government of India, DoR, vide Gazette Notification No. G.S.R. 261(E) dated April 22, 2020 has notified nine reporting entities as per the recommendation by UIDAI and SEBI to undertake Aadhaar authentication service of the UIDAI under section 11A of the Prevention of Money-laundering Act, 2002. In view of the same, the following entities shall undertake Aadhaar Authentication service of UIDAI subject to compliance of the conditions as laid down in this regard:

- I. Bombay Stock Exchange Limited
- II. National Securities Depository Limited
- III. Central Depository Services (India) Limited
- IV. CDSL Ventures Limited
- V. NSDL Database Management Limited
- VI. NSE Data and Analytics Limited
- VII. CAMS Investor Services Private Limited
- VIII. Computer Age Management Services Private Limited
- IX National Stock Exchange of India Limited⁶⁹

⁶⁹ Circular No. SEBI/HO/MIRSD/DOP/CIR/P/2020/167 dated September 08, 2020

(Government of India, Department of Revenue (DoR), vide Gazette Notification No. G.S.R. 516(E) dated August 20, 2020, notified “National Stock Exchange of India Limited” (NSE) as per the recommendation by Unique Identification Authority of India (UIDAI) and SEBI to undertake Aadhaar authentication service of the UIDAI under section 11A of the Prevention of Money-laundering Act, 2002. In view of the same, National Stock Exchange of India Limited shall undertake Aadhaar Authentication service of the UIDAI subject to compliance of the conditions as laid down in this regard)

- 2.7.9 These entities shall get registered with UIDAI as KYC user agency (“KUA”) and shall allow SEBI registered intermediaries / mutual fund distributors to undertake Aadhaar Authentication of their clients for the purpose of KYC through them.
- 2.7.10 The SEBI registered intermediaries / mutual fund distributors, who want to undertake Aadhaar authentication services through KUAs, shall enter into an agreement with any one KUA and get themselves registered with UIDAI as sub-KUAs. The agreement in this regard shall be as may be prescribed by UIDAI.
- 2.7.11 Upon notification by the Central Government / registration with UIDAI, the KUAs and sub-KUAs shall adopt the following process for Aadhaar e-KYC of investors (resident) in the securities market and as may be prescribed by UIDAI from time to time.

A. Online Portal based Investor (Resident) e-KYC Process (Aadhaar as an OVD)

- a. Investor visits portal of KUA or the SEBI registered intermediary which is also a Sub-KUA to open account/invest through intermediary.
- b. For Aadhaar e-KYC, investor is redirected to KUA portal. Investor enters the Aadhaar Number or Virtual Id and provides consent on KUA portal. Adequate controls shall be in place to ensure that Aadhaar Number is not stored anywhere by the Sub-KUA or KUA.
- c. Investor will receive OTP in mobile number registered with Aadhaar. Investor enters the OTP sent by UIDAI on KUA portal for Aadhaar e-KYC.
- d. KUA will receive the e-KYC details from UIDAI upon successful Aadhaar authentication which will be further forwarded to Sub-KUA in encrypted format (using KUAs own encryption key) and will be displayed to the investor on portal. Sharing of e-KYC data by the KUA with Sub-KUA may be allowed under Regulation 16(2) of Aadhaar (Authentication) Regulation, 2016. Sub-KUA shall clearly specify the name of the KUA and Sub- KUA, and details of sharing of data among KUA and Sub-KUA while capturing investor consent.
- e. Investor will fill the additional detail as required under KYC format.
- f. SEBI registered Intermediary will upload additional KYC details to the KUA.

B. Assisted Investor (Resident) e-KYC process (Aadhaar as an OVD)

- a. Investor approaches any of the SEBI Registered Entity/ Sub-KUAs i.e. Mutual Fund Distributors or appointed persons for e-KYC through Aadhaar.
- b. SEBI registered entities (Sub-KUAs) will perform e-KYC using registered / Whitelisted devices with KUAs.
- c. KUA will ensure that all devices and device operators of Sub-KUA are registered / whitelisted devices with KUA.
- d. Investor will enter Aadhaar No. or Virtual Id and provides consent on the registered device.
- e. Investor provides biometric on the registered device.
- f. SEBI registered intermediary (Sub-KUA) fetches the e-KYC details through the KUA from UIDAI which will be displayed to the investor on the registered device.
- g. Investor will also provide the additional detail as required.

2.7.12 The KUA/ sub-KUA while performing the Aadhaar authentication shall also comply with the following:

- a. For sharing of e-KYC data with Sub-KUA under Regulation 16(2) of Aadhaar (Authentication) Regulations, 2016, KUA shall obtain special permission from UIDAI by submitting an application in this regard. Such permissible sharing of e- KYC details by KUA can be allowed with their associated Sub-KUAs only.
- b. KUA shall not share UIDAI digitally signed e-KYC data with other KUAs. However, KUAs may share data after digitally signing it using their own signature for internal working of the system.
- c. e-KYC data received as response upon successful Aadhaar authentication from UIDAI will be stored by KUA and Sub-KUA in the manner prescribed by Aadhaar Act/Regulations and circulars issued by UIDAI time to time.
- d. KUA/Sub-KUA shall not store Aadhaar number in their database under any circumstances. It shall be ensured that Aadhaar number is captured only using UIDAI's Aadhaar Number Capture Services (ANCS).
- e. The KUA shall maintain auditable logs of all such transactions where e-KYC data has been shared with sub-KUA, for a period specified by the Authority.
- f. It shall be ensured that full Aadhaar number is not stored and displayed anywhere in the system and wherever required only last 4 digits of Aadhaar number may be displayed.
- g. As per Regulation 14(i) of the Aadhaar (Authentication) Regulation, 2016, requesting entity shall implement exception-handling mechanisms and backup identity authentication mechanism to ensure seamless provision of authentication services to Aadhaar number holders.
- h. UIDAI may conduct audit of all KUAs and Sub KUAs as per the Aadhaar Act, Aadhaar Regulations, AUA/KUA Agreement, Guidelines, circulars etc. issued by UIDAI from time to time.

- i. Monitoring of irregular transactions - KUAs shall develop appropriate monitoring mechanism to record irregular transactions and their reporting to UIDAI.
- j. Investor Grievance Handling Mechanism - Investor may approach KUA for their grievance redressal. KUA will ensure that the grievance is redressed within the timeframe as prescribed by UIDAI. KUA will also submit report on grievance redressal to UIDAI as per timelines prescribed by UIDAI.

2.7.13 Onboarding process of KUA/Sub-KUA by UIDAI:

- a. As provided in the DoR circular dated May 09, 2019, SEBI after scrutiny of the application forms of KUAs shall forward the applications along with its recommendation to UIDAI.
- b. For appointment of SEBI registered intermediary / MF distributors as Sub-KUAs, KUA will send list of proposed Sub-KUAs to SEBI and SEBI would forward the list of recommended Sub-KUAs to UIDAI for onboarding. An agreement will be signed between KUA and Sub-KUA, as prescribed by UIDAI. Sub-KUA shall also comply with the Aadhaar Act Regulations, circulars, Guidelines etc. issued by UIDAI from time to time.
- c. Each sub-KUA shall be assigned a separate Sub-KUA code by UIDAI.

2.7.14 The KUA/sub-KUA shall be guided by the above for use of Aadhaar authentication services of UIDAI for e-KYC.

2.7.15 For non-compliances if any observed on the part of the reporting entities (KUAs/ Sub- KUAs), SEBI may take necessary action under the applicable laws and also bring the same to the notice of DoR / FIU for further necessary action, if any. Reporting entity (KUAs/Sub-KUAs) shall also adhere to the continuing compliances and standards of privacy and security prescribed by UIDAI to carry out Aadhaar Authentication Services under section 11A of PMLA. Based on a report from SEBI / UIDAI or otherwise, if it is found that the reporting entity no longer fulfills the requirements for performing authentication under clause (a) of section 11A(1) of PMLA, the Central Government may withdraw the notification after giving an opportunity to the reporting entity.

2.8 Clarification on Know Your Client (KYC) Process and Use of Technology for KYC⁷⁰

- 2.8.1 Know Your Customer (KYC) and Customer Due Diligence (CDD) policies as part of KYC are the foundation of an effective Anti-Money Laundering process. The KYC process requires every SEBI registered intermediary (hereinafter referred to as 'RI') to collect and verify the Proof of Identity (PoI) and Proof of Address (PoA) from the investor.

⁷⁰ Reference circular number SEBI/HO/MIRSD/DOP/CIR/P/2020/73 dated April 24, 2020

- 2.8.2 The provisions as laid down under the Prevention of Money-Laundering Act, 2002, Prevention of Money-Laundering (Maintenance of Records) Rules, 2005, SEBI Master Circular on Anti Money Laundering (AML) dated October 15, 2019 and relevant KYC / AML circulars issued from time to time shall continue to remain applicable. Further, the SEBI registered intermediary shall continue to ensure to obtain the express consent of the investor before undertaking online KYC.
- 2.8.3 SEBI, has issued various circulars to simplify, harmonize the process of KYC by investors / RI. Constant technology evolution has taken place in the market and innovative platforms are being created to allow investors to complete KYC process online. SEBI held discussions with various market participants and based on their feedback and with a view to allow ease of doing business in the securities market, it is decided to make use of following technological innovations which can facilitate online KYC:
- a. eSign service is an online electronic signature service that can facilitate an Aadhaar holder to forward the document after digitally signing the same provided the eSign signature framework is operated under the provisions of Second schedule of the Information Technology Act and guidelines issued by the controller.
 - b. In terms of PML Rule 2 (1) (cb) “equivalent e-document” means an electronic equivalent of a document, issued by the issuing authority of such document with its valid digital signature, including documents issued to the Digital Locker account of the investor as per Rule 9 of the Information Technology (Preservation and Retention of Information by Intermediaries Providing Digital Locker Facilities) Rules, 2016.
 - c. Section 5 of the Information Technology Act, 2000 recognizes electronic signatures (which includes digital signature) and states that where any law provides that information or any other matter shall be authenticated by affixing the signature or any document shall be signed or bear the signature of any person then such requirement shall be deemed to have been satisfied, if such information or matter is authenticated by means of a digital signature affixed in such manner as prescribed by the Central Government. Therefore, the eSign mechanism of Aadhaar shall be accepted in lieu of wet signature on the documents provided by the investor. Even the cropped signature affixed on the online KYC form under eSign shall also be accepted as valid signature.
- 2.8.4 In order to enable the Online KYC process for establishing account based relationship with the RI, Investor's KYC can be completed through online / App based KYC, in-person verification through video, online submission of Officially Valid Document (OVD) / other documents under eSign, in the following manner:
- i. The investor visits the website/App/digital platform of the RI and

fills up the online KYC form and submits requisite documents online.

- ii. The name, photograph, address, mobile number, email ID, Bank details of the investor shall be captured online and OVD / PAN / signed cancelled cheque shall be provided as a photo / scan of the original under eSign and the same shall be verified as under:
 - a. Mobile and email is verified through One Time Password (OTP) or other verifiable mechanism. The mobile number/s of investor accepted as part of KYC should preferably be the one seeded with Aadhaar. (the RI shall ensure to meet the requirements of the mobile number and email as detailed under SEBI circular no. CIR/MIRSD/15/2011 dated August 02, 2011)
 - b. Aadhaar is verified through UIDAI's authentication / verification mechanism. Further, in terms of PML Rule 9 (16), every RI shall, where the investor submits his Aadhaar number, ensure that such investor to redact or blackout his Aadhaar number through appropriate means where the authentication of Aadhaar number is not required under sub-rule (15). RI shall not store/ save the Aadhaar number of investor in their system. e-KYC through Aadhaar Authentication service of UIDAI or offline verification through Aadhaar QR Code/ XML file can be undertaken, provided the XML file or Aadhaar Secure QR Code generation date is not older than 3 days from the date of carrying out KYC. In terms of SEBI circular No. CIR/MIRSD/29/2016 dated January 22, 2016 the usage of Aadhaar is optional and purely on a voluntary basis by the investor.
 - c. PAN is verified online using the Income Tax Database.
 - d. Bank account details are verified by Penny Drop mechanism or any other mechanism using API of the Bank. (Explanation: based on bank details in the copy of the cancelled cheque provided by the investor, the money is deposited into the bank account of the investors to fetch the bank account details and name.) The name and bank details as obtained shall be verified with the information provided by investor.
 - e. Any OVD other than Aadhaar shall be submitted through DigiLocker / under eSign mechanism.
- iii. In terms of Rule 2 (d) of Prevention of Money-Laundering (Maintenance of Records) Rules, 2005 (PML Rules) "Officially Valid Documents" means the following:
 - a. the passport,
 - b. the driving licence,
 - c. proof of possession of Aadhaar number,
 - d. the Voter's Identity Card issued by Election Commission of

India,

- e. job card issued by NREGA duly signed by an officer of the State Government and
 - f. the letter issued by the National Population Register containing details of name, address, or any other document as notified by the Central Government in consultation with the Regulator.
- iv. Further, Rule 9(18) of PML Rules states that in case OVD furnished by the investor does not contain updated address, the document as prescribed therein in the above stated Rule shall be deemed to be the OVD for the limited purpose of proof of address.
- v. PML Rules allows an investor to submit other OVD instead of PAN, however, in terms of SEBI circular No. MRD/DoP/Cir-05/2007 dated April 27, 2007 the requirement of mandatory submission of PAN by the investors for transaction in the securities market shall continue to apply.
- vi. Once all the information as required as per the online KYC form is filled up by the investor, KYC process could be completed as under:
- a. The investor would take a print out of the completed KYC form and after affixing their wet signature, send the scanned copy / photograph of the same to the RI under eSign, or
 - b. Affix online the cropped signature on the filled KYC form and submit the same to the RI under eSign.
- vii. The RI shall forward the KYC completion intimation letter through registered post/ speed post or courier, to the address of the investor in cases where the investor has given address other than as given in the OVD. In such cases of return of the intimation letter for wrong / incorrect address, addressee not available etc, no transactions shall be allowed in such account and intimation shall also sent to the Stock Exchange and Depository.
- viii. The original seen and verified requirement under SEBI circular no. MIRSD/SE/Cir-21/2011 dated October, 5 2011 for OVD would be met where the investor provides the OVD in the following manner:
- i. As a clear photograph or scanned copy of the original OVD, through the eSign mechanism, or;
 - ii. As digitally signed document of the OVD, issued to the DigiLocker by the issuing authority.
- ix. SEBI vide circular no. MIRSD/Cir- 26 /2011 dated December 23,

2011 had harmonized the IPV requirements for the intermediaries. In order to ease the IPV process for KYC, the said SEBI circular pertaining to IPV stands modified as under:

- i. IPV/ VIPV would not be required when the KYC of the investor is completed using the Aadhaar authentication / verification of UIDAI.
- ii. IPV / VIPV shall not be required by the RI when the KYC form has been submitted online, documents have been provided through digilocker or any other source which could be verified online.

2.8.5 Features for online KYC App of the RI - SEBI registered intermediary may implement their own Application (App) for undertaking online KYC of investors. The App shall facilitate taking photograph, scanning, acceptance of OVD through Digilocker, video capturing in live environment, usage of the App only by authorized person of the RI. The App shall also have features of random action initiation for investor response to establish that the interactions not pre-recorded, time stamping, geo-location tagging to ensure physical location in India etc is also implemented. RI shall ensure that the process is a seamless, real-time, secured, end-to-end encrypted audiovisual interaction with the customer and the quality of the communication is adequate to allow identification of the customer beyond doubt. RI shall carry out the liveliness check in order to guard against spoofing and such other fraudulent manipulations. The RI shall before rolling out and periodically, carry out software and security audit and validation of their App. The RI may have additional safety and security features other than as prescribed above.

2.8.6 Feature for Video in Person Verification (VIPV) for Individuals – To enable ease of completing IPV of an investor, intermediary may undertake the VIPV of an individual investor through their App. The following process shall be adopted in this regard:

- i. Intermediary through their authorised official, specifically trained for this purpose, may undertake live VIPV of an individual customer, after obtaining his/her informed consent. The activity log along with the credentials of the person performing the VIPV shall be stored for easy retrieval.
- ii. The VIPV shall be in a live environment.
- iii. The VIPV shall be clear and still, the investor in the video shall be easily recognisable and shall not be covering their face in any manner.
- iv. The VIPV process shall include random question and response from the investor including displaying the OVD, KYC form and signature or could also be confirmed by an OTP.
- v. The RI shall ensure that photograph of the customer downloaded through the Aadhaar authentication / verification process matches

with the investor in the VIPV.

- vi. The VIPV shall be digitally saved in a safe, secure and tamper-proof, easily retrievable manner and shall bear date and time stamping.
- vii. The RI may have additional safety and security features other than as prescribed above.

2.9 Recording of Non Disposal Undertaking (NDU) in the Depository System⁷¹

SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011, requires promoters of a company to disclose details of their encumbered shares including NDUs by promoters which are covered under the scope of disclosures of 'Encumbrances'. It has been observed that some shareholders, primarily promoters, enter into non-disposal agreements/non-disposal undertaking (NDU) for borrowing funds from various lenders. NDUs are typically undertakings given by a shareholder not to transfer or otherwise alienate the securities and are in the nature of negative lien given in favour of another party, usually a lender.

- i. Depositories shall develop a separate module/ transaction type in their system for recording NDUs.
- ii. Both parties to the NDU shall have a demat account with the same depository and be KYC compliant.
- iii. Pursuant to entering the NDU, the Beneficial Owner (BO) along with the other party shall make an application through the participant (where the BO holds his securities) to the depository, for the purpose of recording the NDU transaction.
- iv. The application shall necessarily include details of BO ID, PAN, email-id, signature(s), name of the entity in whose favor such NDU is entered and the quantity of securities. Such entity in whose favor NDU is entered shall also authorize the participant of the BO holding the shares, to access the signatures as recorded in that entity's demat account.
- v. The participant after being satisfied that the securities are available for NDU shall record the NDU and freeze for debit the requisite quantity of securities under NDU in the depository system.
- vi. The depositories shall make suitable provisions for capturing the details of BO ID and PAN of the entity in whose favor such NDU is entered by the participant. The depositories shall also make available to the said participant, the details of authorized signatories as recorded in the demat account of the entity in whose favor such NDU is entered.
- vii. On creation of freeze in the depository system, the depository/ participant of the BO holding shares, shall inform both parties of the NDU regarding creation of freeze under NDU.
- viii. The depositories shall make suitable provisions for capturing the details of company/ promoters if they are part of the NDU.

⁷¹ Reference circular number CIR/MRD/DP/56/2017 dated June 14, 2017



- ix. In case if the participant does not create the NDU, it shall intimate the same to the parties of the NDU along with the reasons thereof.
- x. Once the freeze for debits is created under the NDU for a particular quantity of shares, the depository shall not facilitate or effect any transfer, pledge, hypothecation, lending, rematerialisation or in any manner alienate or otherwise allow dealing in the shares held under NDU till receipt of instructions from both parties for the cancellation of NDU.
- xi. The entry of NDU made as per para 4.34 (v) above may be cancelled by the depository/participant of the BO through unfreeze of specified quantity if parties to the NDU jointly make such application to the depository through the participant of the BO.
- xii. On unfreeze of shares upon termination/cancellation of NDU, the depository shall inform both parties of the NDU in the form and manner agreed upon at the time of creating the freeze. The unfreeze shall be effected in the depository system after a cooling period of 2 clear business days but no later than 4 clear business days.
- xiii. The freeze and unfreeze instructions executed by the Participant for recording NDUs will be subject to 100% concurrent audit.
- xiv. The DPs shall not facilitate or be a party to any NDU outside the depository system as outlined herein.

2.10 Recording of all types of Encumbrances in Depository system⁷²

- 2.10.1 SEBI (Substantial Acquisition of Shares and Takeover) Regulations, 2011 requires promoters of a company to disclose details of their encumbered shares. Apart from pledge, hypothecation and non-disposal undertakings(NDUs), there is no framework to capture the details of other types of encumbrances in the depository system.
- 2.10.2 In this regard, Depositories shall put in place a system for capturing and recording all types of encumbrances, which are specified under Regulation 28(3) of SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011, as amended from time to time. Towards this end, Depositories shall follow processes and other norms similar to that stipulated for the purpose of capturing and recording NDUs in Depository system. This is apart from pledge and hypothecation, whose processes and specific norms are separately provided in SEBI (Depositories & Participants) Regulations, 2018 and circulars issued thereon.
- 2.10.3 The freeze and unfreeze instructions executed by the Participant for recording all encumbrances will be subject to 100% concurrent audit.
- 2.10.4 The Depository Participant shall not facilitate or be party to any type of encumbrance outside the Depository system as outlined herein.

⁷² Reference circular number SEBI/HO/MRD2/DDAP/CIR/P/2020/137 dated July 24, 2020



2.11 *Cyber Security & Cyber Resilience framework for Depository Participant⁷³*

- i. Rapid technological developments in securities market have highlighted the need for maintaining robust cyber security and cyber resilience framework to protect the integrity of data and guard against breaches of privacy.
- ii. Since depository participants perform significant functions in providing services to holders of securities, it is desirable that these entities have robust cyber security and cyber resilience framework in order to provide essential facilities and perform systemically critical functions relating to securities market.
- iii. Accordingly, after discussions with Exchanges, Depositories and Stock Brokers' and Depository Participants' associations, a framework on cyber security and cyber resilience has been designed, which is placed at Annexure 1. The framework would be required to be complied by all Depository Participants registered with SEBI.

Annexure -1

1. Cyber-attacks and threats attempt to compromise the Confidentiality, Integrity and Availability(CIA)of the computer systems, networks and databases (Confidentiality refers to limiting access of systems and information to authorized users, Integrity is the assurance that the information is reliable and accurate, and Availability refers to guarantee of reliable access to the systems and information by authorized users).Cyber security framework includes measures, tools and processes that are intended to prevent cyber-attacks and improve cyber resilience. Cyber Resilience is an organization's ability to prepare and respond to a cyber-attack and to continue operation during, and recover from, a cyber-attack.

Governance

2. As part of the operational risk management framework to manage risk to systems, networks and databases from cyber-attacks and threats, Depository Participants should formulate a comprehensive Cyber Security and Cyber Resilience policy document encompassing the framework mentioned hereunder. In case of deviations from the suggested framework, reasons for such deviations, technical or otherwise, should be provided in the policy document.

The policy document should be approved by the Board / Partners / Proprietor of the Stock Broker / Depository Participants. The policy document should be reviewed by the aforementioned group at least annually with the view to strengthen and improve its Cyber Security and Cyber Resilience framework.

⁷³ Reference circular SEBI/HO/MIRSD/CIR/PB/2018/147 dated December 03, 2018 and SEBI/HO/MIRSD/DOP/CIR/P/2019/109 dated October 15, 2019

3. The Cyber Security Policy should include the following process to identify, assess, and manage Cyber Security risk associated with processes, information, networks and systems:
 - a. 'Identify' critical IT assets and risks associated with such assets.
 - b. 'Protect' assets by deploying suitable controls, tools and measures.
 - c. 'Detect' incidents, anomalies and attacks through appropriate monitoring tools/processes.
 - d. 'Respond' by taking immediate steps after identification of the incident, anomaly or attack.
 - e. 'Recover' from incident through incident management and other appropriate recovery mechanisms.
4. The Cyber Security Policy of Stock Brokers trading through APIs based terminal / Depository Participants should consider the principles prescribed by National Critical Information Infrastructure Protection Centre (NCIIPC) of National Technical Research Organization (NTRO), Government of India (titled 'Guidelines for Protection of National Critical Information Infrastructure') and subsequent revisions, if any, from time to time.
5. Stock Brokers trading through APIs based terminal / Depository Participants may refer to best practices from international standards like ISO 27001, COBIT 5, etc., or their subsequent revisions, if any, from time to time.
6. Depository Participants should designate a senior official or management personnel (henceforth, referred to as the "Designated Officer") whose function would be to assess, identify, and reduce security and Cyber Security risks, respond to incidents, establish appropriate standards and controls, and direct the establishment and implementation of processes and procedures as per the Cyber Security Policy.
7. The Board / Partners / Proprietor of the Depository Participants shall constitute an Technology Committee⁷⁴ comprising experts. This Technology Committee should on a half yearly basis review the implementation of the Cyber Security and Cyber Resilience policy approved by their Board / Partners / Proprietor, and such review should include review of their current IT and Cyber Security and Cyber Resilience capabilities, set goals for a target level of Cyber Resilience, and establish plans to improve and strengthen Cyber Security and Cyber Resilience. The review shall be placed before the Board / Partners / Proprietor of the Stock Brokers / Depository Participants for appropriate action.
8. Depository Participants should establish a reporting procedure to facilitate communication of unusual activities and events to the Designated Officer in a timely manner.
9. The Designated officer and the technology committee of the Depository Participants should periodically review instances of cyber-attacks, if any, domestically and globally, and take steps to strengthen Cyber Security and cyber resilience framework.

⁷⁴ Reference Circular CIR/HO/MIRSD/DOS2/CIR/PB/2019/038 dated March 15, 2019 - in Para 7, the words "Internal Technology Committee" stands replaced as "Technology Committee".

10. Depository Participants should define responsibilities of its employees, outsourced staff, and employees of vendors, members or participants and other entities, who may have privileged access or use systems / networks of Depository Participants towards ensuring the goal of Cyber Security.

Identification

11. Depository Participants should identify critical assets based on their sensitivity and criticality for business operations, services and data management. To this end, Depository Participants should maintain up-to-date inventory of its hardware and systems and the personnel to whom these have been issued, software and information assets (internal and external), details of its network resources, connections to its network and data flows.
12. Depository Participants should accordingly identify cyber risks (threats and vulnerabilities) that it may face, along with the likelihood of such threats and impact on the business and thereby, deploy controls commensurate to the criticality.

Protection

Access controls

13. No person by virtue of rank or position should have any intrinsic right to access confidential data, applications, system resources or facilities.
14. Any access to Depository Participants systems, applications, networks, databases, etc., should be for a defined purpose and for a defined period. Depository Participants should grant access to IT systems, applications, databases and networks on a need-to-use basis and based on the principle of least privilege. Such access should be for the period when the access is required and should be authorized using strong authentication mechanisms.
15. Depository Participants should implement an access policy which addresses strong password controls for users' access to systems, applications, networks and databases. Illustrative examples for this are given in Annexure C.
16. All critical systems of the Depository Participant accessible over the internet should have two-factor security (such as VPNs, Firewall controls etc.)
17. Depository Participants should ensure that records of user access to critical systems, wherever possible, are uniquely identified and logged for audit and review purposes. Such logs should be maintained and stored in a secure location for a time period not less than two (2) years.
18. Depository Participants should deploy controls and security measures to supervise staff with elevated system access entitlements (such as admin or privileged users) to Stock Broker/ Depository Participant's critical systems. Such controls and measures should inter-alia include restricting the number of privileged users, periodic review of privileged users' activities, disallow privileged users from accessing systems logs in which



their activities are being captured, strong controls over remote access by privileged users, etc.

19. Employees and outsourced staff such as employees of vendors or service providers, who may be given authorized access to the Depository Participants critical systems, networks and other computer resources, should be subject to stringent supervision, monitoring and access restrictions.
20. Depository Participants should formulate an Internet access policy to monitor and regulate the use of internet and internet based services such as social media sites, cloud-based internet storage sites, etc. within the Depository Participant's critical IT infrastructure.
21. User Management must address deactivation of access of privileges of users who are leaving the organization or whose access privileges have been withdrawn.

Physical Security

22. Physical access to the critical systems should be restricted to minimum and only to authorized officials. Physical access of outsourced staff/visitors should be properly supervised by ensuring at the minimum that outsourced staff/visitors are accompanied at all times by authorized employees.
23. Physical access to the critical systems should be revoked immediately if the same is no longer required.
24. Depository Participants should ensure that the perimeter of the critical equipments room, if any, are physically secured and monitored by employing physical, human and procedural controls such as the use of security guards, CCTVs, card access systems, mantraps, bollards, etc. where appropriate.

Network Security Management

25. Depository Participants should establish baseline standards to facilitate consistent application of security configurations to operating systems, databases, network devices and enterprise mobile devices within their IT environment. The LAN and wireless networks should be secured within the Depository Participants' premises with proper access controls.
26. For algorithmic trading facilities, adequate measures should be taken to isolate and secure the perimeter and connectivity to the servers running algorithmic trading applications.
27. Depository Participants should install network security devices, such as firewalls, proxy servers, intrusion detection and prevention systems (IDS) to protect their IT infrastructure which is exposed to the internet, from security exposures originating from internal and external sources.
28. Adequate controls must be deployed to address virus / malware / ransomware attacks. These controls may include host / network / application based IDS systems, customized kernels for Linux, anti-virus and anti-malware software etc.

Data security

29. Critical data must be identified and encrypted in motion and at rest by using strong encryption methods. Illustrative measures in this regard are given in Annexure A and B.
30. Depository Participants should implement measures to prevent unauthorized access or copying or transmission of data / information held in contractual or fiduciary capacity. It should be ensured that confidentiality of information is not compromised during the process of exchanging and transferring information with external parties. Illustrative measures to ensure security during transportation of data over the internet are given in Annexure B.
31. The information security policy should also cover use of devices such as mobile phones, faxes, photocopiers, scanners, etc., within their critical IT infrastructure, that can be used for capturing and transmission of sensitive data. For instance, defining access policies for personnel, and network connectivity for such devices etc.
32. Depository Participants should allow only authorized data storage devices within their IT infrastructure through appropriate validation processes.

Hardening of Hardware and Software

33. Depository Participants should only deploy hardened hardware / software, including replacing default passwords with strong passwords and disabling or removing services identified as unnecessary for the functioning of the system.
34. Open ports on networks and systems which are not in use or that can be potentially used for exploitation of data should be blocked and measures taken to secure them.

Application Security in Customer Facing Applications

35. Application security for Customer facing applications offered over the Internet such as IBTs (Internet Based Trading applications), portals containing sensitive or private information and Back office applications (repository of financial and personal information offered by Brokers to Customers) are paramount as they carry significant attack surfaces by virtue of being available publicly over the Internet for mass use. An illustrative list of measures for ensuring security in such applications is provided in Annexure C.

Certification of off-the-shelf products

36. Depository Participants should ensure that off the shelf products being used for core business functionality (such as Back office applications) should bear Indian Common criteria certification of Evaluation Assurance Level 4. The Common criteria certification in India is being provided by (STQC) Standardisation Testing and Quality Certification (Ministry of Electronics and Information Technology). Custom developed / in-house software and

components need not obtain the certification, but have to undergo intensive regression testing, configuration testing etc. The scope of tests should include business logic and security controls.

Patch management

37. Depository Participants should establish and ensure that the patch management procedures include the identification, categorization and prioritization of patches and updates. An implementation timeframe for each category of patches should be established to apply them in a timely manner.
38. Depository Participants should perform rigorous testing of security patches and updates, where possible, before deployment into the production environment so as to ensure that the application of patches do not impact other systems.

Disposal of data, systems and storage devices

39. Depository Participants should frame suitable policy for disposal of storage media and systems. The critical data / Information on such devices and systems should be removed by using methods such as crypto shredding / degauss / Physical destruction as applicable.
40. Depository Participants should formulate a data-disposal and data- retention policy to identify the value and lifetime of various parcels of data.

Vulnerability Assessment and Penetration Testing (VAPT)

41. Depository Participants should regularly conduct vulnerability assessment to detect security vulnerabilities in their IT environments exposed to the internet.
42. Depository Participants with systems publicly available over the internet should also carry out penetration tests, at-least once a year, in order to conduct an in-depth evaluation of the security posture of the system through simulations of actual attacks on its systems and networks that are exposed to the internet.
In addition, Depository Participants should perform vulnerability scanning and conduct penetration testing prior to the commissioning of a new system that is accessible over the internet.
43. In case of vulnerabilities discovered in off-the-shelf products (used for core business) or applications provided by exchange empanelled vendors, Depository Participants should report them to the vendors and the exchanges in a timely manner.
44. Remedial actions should be immediately taken to address gaps that are identified during vulnerability assessment and penetration testing.

Monitoring and Detection

45. Depository Participants should establish appropriate security monitoring systems and processes to facilitate continuous monitoring of security events /



alerts and timely detection of unauthorised or malicious activities, unauthorised changes, unauthorised access and unauthorised copying or transmission of data / information held in contractual or fiduciary capacity, by internal and external parties. The security logs of systems, applications and network devices exposed to the internet should also be monitored for anomalies.

46. Further, to ensure high resilience, high availability and timely detection of attacks on systems and networks exposed to the internet, Stock Brokers / Depository Participants should implement suitable mechanisms to monitor capacity utilization of its critical systems and networks that are exposed to the internet, for example, controls such as firewalls to monitor bandwidth usage.

Response and Recovery

47. Alerts generated from monitoring and detection systems should be suitably investigated in order to determine activities that are to be performed to prevent expansion of such incident of cyber-attack or breach, mitigate its effect and eradicate the incident.
48. The response and recovery plan of the Depository Participants should have plans for the timely restoration of systems affected by incidents of cyber-attacks or breaches, for instance, offering alternate services or systems to Customers. Stock Brokers / Depository Participants should have the same Recovery Time Objective (RTO) and Recovery Point Objective (RPO) as specified by SEBI for Market Infrastructure Institutions vide SEBI circular CIR/MRD/DMS/17/20 dated June 22, 2012 as amended from time to time
49. The response plan should define responsibilities and actions to be performed by its employees and support / outsourced staff in the event of cyber-attacks or breach of Cyber Security mechanism.
50. Any incident of loss or destruction of data or systems should be thoroughly analyzed and lessons learned from such incidents should be incorporated to strengthen the security mechanism and improve recovery planning and processes.
51. Depository Participants should also conduct suitable periodic drills to test the adequacy and effectiveness of the aforementioned response and recovery plan.

Sharing of Information

52. Quarterly reports containing information on cyber-attacks and threats experienced by Depository Participants and measures taken to mitigate vulnerabilities, threats and attacks including information on bugs / vulnerabilities / threats that may be useful for other Depository Participants should be submitted to Depositories.

In this regard, following guidelines are for submission of report / information and the timelines:

- i. A format for submitting the reports is attached as Annexure.

- ii. Effective from quarter ending on December 31, 2019, the time period for submission of the report shall be 15 days after the end of the quarter.
- iii. The mode of submission of such reports by the depository participants may be prescribed by Depositories.

Training and Education

- 53. Depository Participants should work on building Cyber Security and basic system hygiene awareness of staff (with a focus on staff from non-technical disciplines).
- 54. Depository Participants should conduct periodic training programs to enhance knowledge of IT / Cyber Security Policy and standards among the employees incorporating up-to-date Cyber Security threat alerts. Where possible, this should be extended to outsourced staff, vendors etc.
- 55. The training programs should be reviewed and updated to ensure that the contents of the program remain current and relevant.

Systems managed by vendors

- 56. Where the systems (IBT, Back office and other Customer facing applications, IT infrastructure, etc.) of a Stock Brokers / Depository Participants are managed by vendors and the Stock Brokers / Depository Participants may not be able to implement some of the aforementioned guidelines directly, the Depository Participants should instruct the vendors to adhere to the applicable guidelines in the Cyber Security and Cyber Resilience policy and obtain the necessary self-certifications from them to ensure compliance with the policy guidelines.

Systems managed by MIIs

- 57. Where applications are offered to customers over the internet by MIIs (Market Infrastructure Institutions), for e.g.: NSE's NOW, BSE's BEST etc., the responsibility of ensuring Cyber Resilience on those applications reside with the MIIs and not with the Depository Participant. The Depository Participant is exempted from applying the aforementioned guidelines to such systems offered by MIIs such as NOW, BEST, etc.

Periodic Audit

- 58. The Terms of Reference for the System Audit of Stock Brokers specified vide circular no. CIR/MRD/DMS/34/2013 dated November 06, 2013, shall accordingly stand modified to include audit of implementation of the aforementioned areas.
 - i. Further, auditors qualified in following certifications can audit the systems of depository participants and stock brokers to check the compliance of Cyber Security and Cyber Resilience provisions:

- a. CERT-IN empanelled auditor, an independent DISA (ICAI) Qualification, CISA (Certified Information System Auditor) from ISACA, CISM (Certified Information Security Manager) from ISACA, CISSP (Certified Information Systems Security Professional) from International Information Systems Security Certification Consortium (commonly known as (ISC)2).
- ii. The periodicity of audit for the purpose of compliance with Cyber Security and Cyber Resilience provisions for depository participants shall be annual. The periodicity of audit for the compliance with the provisions of Cyber Security and Cyber Resilience provisions for stock brokers, irrespective of number of terminals and location presence, shall be as under:

Type of stock broker as specified in SEBI circular CIR/MRD/DMS/34/2013 dated November 06, 2013	Periodicity
Type I	Annual
Type II	Annual
Type III	Half-yearly

Annexure

Incident Reporting Form		
1. Letter/ Report Subject-		
Name of the Member / Depository Participant - Name of the Stock Exchange/ Depository- Member ID/DPID-		
2. Reporting Periodicity Year-		
<input type="checkbox"/> Quarter1 (Apr-Jun) <input type="checkbox"/> Quarter2 (Jul-Sep)		<input type="checkbox"/> Quarter3 (Oct-Dec) <input type="checkbox"/> Quarter4 (Jan-Mar)
3. Designated Officer (Reporting Officer details) -		
Name:	Organization:	Title:
Phone / Fax No:	Mobile:	Email:



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Address:

Cyber-attack/ breach observed in Quarter:

(If yes, please fill **Annexure I**)

(If no, please submit the NIL report)

Date & Time	Brief information on the Cyber-attack/ breached observed

Annexure I

1. Physical location of affected computer /network and name of ISP-

2. Date and time incident occurred -

Date:	Time:
-------	-------



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3. Information of affected system-

IP Address:	Computer /Host Name:	Operating System (incl. Ver. / release No.):	Last Patched/ Updated:	Hardware Vendor/ Model:
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4. Type of incident -

<input type="checkbox"/> Phishing <input type="checkbox"/> Network scanning /Probing Break-in/Root Compromise <input type="checkbox"/> Virus/Malicious Code <input type="checkbox"/> Website Defacement <input type="checkbox"/> System Misuse	<input type="checkbox"/> Spam <input type="checkbox"/> Bot/Botnet <input type="checkbox"/> Email Spoofing <input type="checkbox"/> Denial of Service (DoS) <input type="checkbox"/> Distributed Denial of Service (DDoS) <input type="checkbox"/> User Account Compromise	<input type="checkbox"/> Website Intrusion <input type="checkbox"/> Social Engineering <input type="checkbox"/> Technical Vulnerability <input type="checkbox"/> IP Spoofing <input type="checkbox"/> Ransomware <input type="checkbox"/> Other _____
--	--	--

5. Description of incident-

6. Unusual behavior/symptoms(Tick the symptoms)-

<input type="checkbox"/> System crashes <input type="checkbox"/> New user accounts/ Accounting discrepancies <input type="checkbox"/> Failed or successful social engineering attempts <input type="checkbox"/> Unexplained, poor system performance <input type="checkbox"/> Unaccounted for changes in the DNS tables, router rules, or firewall rules <input type="checkbox"/> Unexplained elevation or use of privileges Operation of a program or sniffer device to capture network traffic; <input type="checkbox"/> An indicated last time of usage of a user account that does not correspond to the actual last time of usage for that user <input type="checkbox"/> A system alarm or similar indication from an intrusion detection tool <input type="checkbox"/> Altered home pages, which are usually the intentional target for visibility, or other pages on the Webserver	<input type="checkbox"/> Anomalies <input type="checkbox"/> Suspicious probes <input type="checkbox"/> Suspicious browsing New files <input type="checkbox"/> Changes in file lengths or dates <input type="checkbox"/> Attempts to write to system <input type="checkbox"/> Data modification or deletion <input type="checkbox"/> Denial of service <input type="checkbox"/> Door knob rattling <input type="checkbox"/> Unusual time of usage <input type="checkbox"/> Unusual usage patterns <input type="checkbox"/> Unusual log file entries <input type="checkbox"/> Presence of new setuid or setgid files Changes in system directories and files <input type="checkbox"/> Presence of cracking utilities <input type="checkbox"/> Activity during non-working hours or holidays <input type="checkbox"/> Other (Please specify)
---	---

7. Details of unusual behavior/symptoms -



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8. Has this problem been experienced earlier? If yes, details-

9. Agencies notified-

Law Enforcement	Private Agency	Affected Product Vendor	Other _____
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10. IP Address of apparent or suspected source-

Source IP address: Other information available:

11. How many host(s) are affected-

1 to 10

10 to 100

More than 100

12. Details of actions taken for mitigation and any preventive measure applied-

59. The Depository Participants and Type I Stock Brokers (as defined in CIR/MRD/DMS/34/2013 dated November 06, 2013) shall arrange to have their systems audited on an annual basis by a CERT-IN empanelled auditor or an independent CISA/CISM qualified auditor to check compliance with the above areas and shall submit the report to Stock Exchanges / Depositories along with the comments of the Board / Partners / Proprietor of Stock Broker/ Depository Participant within three months of the end of the financial year.

Annexure A

Illustrative Measures for Data Security on Customer Facing Applications

1. Analyse the different kinds of sensitive data shown to the Customer on the frontend application to ensure that only what is deemed absolutely necessary is transmitted and displayed.
2. Wherever possible, mask portions of sensitive data. For instance, rather than displaying the full phone number or a bank account number, display only a portion of it, enough for the Customer to identify, but useless to an unscrupulous party who may obtain covertly obtain it from the Customer's screen. For instance, if a bank account number is "123 456 789", consider displaying something akin to

“XXX XXX 789” instead of the whole number. This also has the added benefit of not having to transmit the full piece of data over various networks.

3. Analyse data and databases holistically and draw out meaningful and “silos” (physical or virtual) into which different kinds of data can be isolated and cordoned off. For instance, a database with personal financial information need not be a part of the system or network that houses the public facing websites of the Stock Broker. They should ideally be in discrete silos or DMZs.
4. Implement strict data access controls amongst personnel, irrespective of their responsibilities, technical or otherwise. It is infeasible for certain personnel such as System Administrators and developers to not have privileged access to databases. For such cases, take strict measures to limit the number of personnel with direct access, and monitor, log, and audit their activities. Take measures to ensure that the confidentiality of data is not compromised under any of these scenarios.
5. Use industry standard, strong encryption algorithms (eg: RSA, AES etc.) wherever encryption is implemented. It is important to identify data that warrants encryption as encrypting all data is infeasible and may open up additional attack vectors. In addition, it is critical to identify the right personnel to be in charge of, and the right methodologies for storing the encryption keys, as any compromise to either will render the encryption useless.
6. Ensure that all critical and sensitive data is adequately backed up, and that the backup locations are adequately secured. For instance, on servers on isolated networks that have no public access endpoints, or on-premise servers or disk drives that are off-limits to unauthorized personnel. Without up-to-date backups, a meaningful recovery from a disaster or cyber-attack scenario becomes increasingly difficult.

Annexure B

Illustrative Measures for Data Transport Security

1. When an Application transmitting sensitive data communicates over the Internet with the Stock Brokers’ systems, it should be over a secure, encrypted channel to prevent Man-In-The-Middle (MITM) attacks, for instance, an IBT or a Back office communicating from a Customer’s web browser or Desktop with the Stock Brokers’ systems over the internet, or intra or inter organizational communications. Strong transport encryption mechanisms such as TLS (Transport Layer Security, also referred to as SSL) should be used.
2. For Applications carrying sensitive data that are served as web pages over the internet, a valid, properly configured TLS (SSL) certificate on the web server is mandatory, making the transport channel HTTP(S).



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3. Avoid the use of insecure protocols such as FTP (File Transfer Protocol) that can be easily compromised with MITM attacks. Instead, adopt secure protocols such as FTP(S), SSH and VPN tunnels, RDP (with TLS) etc.

Annexure C

Illustrative Measures for Application Authentication Security

1. Any Application offered by Stock Brokers to Customers containing sensitive, private, or critical data such as IBTs, SWSTs, Back office etc. referred to as "Application" hereafter) over the Internet should be password protected. A reasonable minimum length (and no arbitrary maximum length cap or character class requirements) should be enforced. While it is difficult to quantify password "complexity", longer passphrases have more entropy and offer better security in general. Stock Brokers should attempt to educate Customers of these best practices.
2. Passwords, security PINs etc. should never be stored in plain text and should be one-way hashed using strong cryptographic hash functions (e.g.: bcrypt, PBKDF2) before being committed to storage. It is important to use one-way cryptographic hashes to ensure that stored password hashes are never transformed into the original plaintext values under any circumstances.
3. For added security, a multi-factor (e.g.: two-factor) authentication scheme may be used (hardware or software cryptographic tokens, VPNs, biometric devices, PKI etc.).

In case of IBTs and SWSTs, a minimum of two-factors in the authentication flow are mandatory.

4. In case of Applications installed on mobile devices (such as smartphones and tablets), a cryptographically secure biometric two-factor authentication mechanism may be used.
5. After a reasonable number of failed login attempts into Applications, the Customer's account can be set to a "locked" state where further logins are not possible until a password and authentication reset is performed via an out-of-band channel validation, for instance, a cryptographically secure unique link that is sent to the Customer's registered e-mail, a random OTP (One Time Password) that is sent as an SMS to the Customer's registered mobile number, or manually by the Broker after verification of the Customer's identity etc.
6. Avoid forcing Customers to change passwords at frequent intervals which may result in successive, similar, and enumerated passwords. Instead, focus on strong multi-factor authentication for security and educate Customers to choose strong passphrases. Customers may be reminded within reasonable intervals to update their password and multi-factor credentials, and to ensure that their out-of-band authentication reset information (such as e-mail and phone number) are up-to-date.
7. Both successful and failed login attempts against a Customer's account may be logged for a reasonable period of time. After successive login failures, it is

recommended that measures such as CAPTCHAs or rate-limiting be used in Applications to thwart manual and automated brute force and enumeration attacks against logins.

2.12 Reporting for Artificial Intelligence (AI) and Machine Learning (ML) applications and systems offered and used by market intermediaries⁷⁵

Background

1. There is increasing usage of AI (Artificial Intelligence) and ML (Machine Learning) as product offerings by market intermediaries and participants (eg: "robo advisors") in investor and consumer facing products. SEBI is conducting a survey and creating an inventory of the AI / ML landscape in the Indian financial markets to gain an in-depth understanding of the adoption of such technologies in the markets and to ensure preparedness for any AI / ML policies that may arise in the future.
2. As most AI / ML systems are black boxes and their behavior cannot be easily quantified, it is imperative to ensure that any advertised financial benefit owing to these technologies in investor facing financial products offered by intermediaries should not constitute to misrepresentation

Scope definition

3. Any set of applications / software / programs / executable / systems (computer systems) –cumulatively called application and systems,
 1. that are offered to investors (individuals and institutions) by market intermediaries to facilitate investing and trading,

OR
 2. to disseminate investments strategies and advice,

OR
 3. to carry out compliance operations / activities, where AI / ML is portrayed as a part of the public product offering or under usage for compliance or management purposes, is included in the scope of this circular. Here, "AI" / "ML" refers to the terms "Artificial Intelligence" and "Machine Learning" used as a part of the product offerings. In order to make the scope of this circular inclusive of various AI and ML technologies in use, the scope also covers Fin-Tech and Reg-Tech initiatives undertaken by market participants that involves AI and ML
4. Technologies that are considered to be categorized as AI and ML technologies in the scope of this circular, are explained in Annexure B.

⁷⁵ Reference Circular SEBI/HO/MIRSD/DOS2/CIR/P/2019/10 dated Jan 04, 2019

Regulatory requirements

5. All registered Stock Brokers / Depository Participant offering or using applications or systems as defined in Annexure B, should participate in the reporting process by completing the AI / ML reporting form (see Annexure A).
6. With effect from quarter ending March 2019, registered Stock Brokers / Depository Participant using AI / ML based application or system as defined in Annexure B, are required to fill in the form(Annexure A) and make submissions on quarterly basis within 15 calendar days of the expiry of the quarter.
7. Stock Exchanges and Depositories have to consolidate and compile a report, on AI / ML applications and systems reported by registered Stock Brokers/ Depository Participants in the reporting format (Annexure C) on quarterly basis. The said report (Annexure C) shall be submitted in soft copy only at AI_SE@sebi.gov.in (for Stock Exchange) / AI_DEP@sebi.gov.in (for Depositories)to SEBI within 30 calendar days of the expiry of the quarter, starting from quarter ending March 2019.

**Annexure A - Form to report on AI and ML technologies – To be submitted quarterly
 Intimation to Stock Exchange / Depository for the use of the AI and ML
 application and systems**

S No.	Head	Value
1	Entity SEBI registration number	
2	Registered entity category	
3	Entity name	
4	Entity PAN no.	
5	Application / System name	
6	Date from when the Application / System was used	
7	Type of area where AI or ML is used	<order execution / Advisory services / KYC / AML / Surveillance / compliance/others (please specify in 256 characters)>
7.a	Does the system involve order initiation, routing and execution?	<Yes / NO>
7.b	Does the system fall under discretionary investment or Portfolio management activities?	<Yes / NO>
7.c	Does the system disseminate investment trading advice or strategies?	<Yes / NO>

7.d	Is the application/system used in area of Cyber Security to detect attacks	<Yes / NO>
7.e	What claims have been made regarding AI and ML Application / System - if any?	<free text field>
8	What is the name of the Tool / Technology that is categorized as AI and ML system / Application and submissions are declared vide this response	<free text field>
9	How was the AI or ML project implemented	<Internally / through solution provider / Jointly with a solution provider or third party>
10	Are the key controls and control points in your AI or ML application or systems in accordance to circular of SEBI that mandate cyber security control requirements	<free text field>
11	Is the AI / ML system included in the system audit, if applicable?	<Yes / NO / NA>
12	Describe the application / system and how it uses AI / ML as portrayed in the product offering	<free text field>
13	What safeguards are in place to prevent abnormal behavior of the AI or ML application / System	<free text field>

Annexure B-Systems deemed to be based on AI and ML technology

Applications and Systems belonging but not limited to following categories or a combination of these:

1. Natural Language Processing (NLP), sentiment analysis or text mining systems that gather intelligence from unstructured data -In this case, Voice to text, text to intelligence systems in any natural language will be considered in scope. Eg: robo chat bots, big data intelligence gathering systems.
2. Neural Networks or a modified form of it -In this case, any systems that uses a number of nodes (physical or software simulated nodes) mimicking natural neural networks of any scale, so as to carry out learning from previous firing of the nodes will be considered in scope. Eg: Recurrent Neural networks and Deep Learning Neural Networks
3. Machine learning through supervised, unsupervised learning or a combination of both. In this case, any application or systems that carry out knowledge representation to form a knowledge base of domain, by learning and creating its outputs with real world input data and deciding future outputs based upon the



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knowledge base. Eg: System based on Decision tree, random forest, K mean, Markov decision process, Gradient boosting Algorithms.

4. A system that uses statistical heuristics method instead of procedural algorithms or the system / application applies clustering or categorization algorithms to categorize data without a predefined set of categories
5. A system that uses a feedback mechanism to improve its parameters and bases it subsequent execution steps on these parameters.
6. A system that does knowledge representation and maintains a knowledge base

Annexure C -Consolidated Quarterly Reporting Form

Consolidated Quarterly report to SEBI of all registered intermediaries with Stock Exchange/ Depositories using AI and ML application and systems for the Quarter Ended DD/MM/YYYY

Entity registration number	Entity name	Entity PAN no.	Application / System name	Date used from	Type of area where AI or ML is used	To be filled if System Audit is applicable			
						If system audit report is submitted by entity later than "date used from"	Does system audit report comply to circular no SEBI/HO/MIRS	Is there any adverse comment in the System audit report	If system audit report is submitted with adverse remarks and Stock Exchange/Depositories is entitled to inspect the entity
					D/DOS2/CIR /P /2019/10 dated January 4, 2019 of SEBI				
					<order execution / Advisory services / KYC / AML / Surveillance	<Yes / NO/>	<Yes / NO/>	<Yes / NO>	<Yes / NO>



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					compliance/ others (please specify in 256 characters)>				

Add separate rows for each system or application.

2.13 *Flashing a link to SCOREs on the dashboard of Demat Accounts⁷⁶*

1. A study was conducted under aegis of Quality Council of India (QCI) to understand some of the root causes of grievances / complaints on securities market related issues lodged on Centralised Public Grievance Redressal and Monitoring System (CPGRAMS) portal and the measures suggested to address the issues included providing a link to SCORES portal within Demat/Trading Account Dashboard of the Clients/ investors to make it easier to lodge grievances.
2. The suggestion has been examined and it has been decided to implement the same. Accordingly, stock exchanges and depositories are advised to issue necessary directions to stock brokers/depository participants to ensure that the Demat / Trading Account Dashboard of clients / investors provides a link to SCORES portal.

2.14 *Displaying of information regarding SEBI Complaint Redress System (SCORES) in the website⁷⁷*

2.14.1 SEBI has commenced processing of complaints through SCORES since June, 2011.

2.14.2 With a view to make the complaint redressal mechanism through SCORES more efficient, all Depository Participants are directed to display the following information on their websites:

Filing complaints on SCORES – Easy & quick

- a. Register on SCORES portal
- b. Mandatory details for filing complaints on SCORES:
 - i. Name, PAN, Address, Mobile Number, Email ID
- c. Benefits:
 - i. Effective communication
 - ii. Speedy redressal of the grievances

⁷⁶ Reference: SEBI letter MIRSD2/DB/AEA/OW/2018/7292 dated March 07, 2018

⁷⁷ SEBI Letter no. SEBI/MIRSD/16742/2019 dated July 03, 2019

- 2.14.3 Further, all the Depository Participants to include procedure for filing of complaints on SCORES and benefits for the same in the welcome kit to be given to the investors at the time of their registration with them.
- 2.14.4 The Depositories are advised to bring the contents to the notice of Depository Participants for necessary action.

SECTION 3: Issuer Related

3.1 Charges paid by Issuers^{78,79}

- i. With effect from April 27, 2011 depositories may levy and collect the charges towards custody from the issuers, on the basis of average no. of folios (ISIN position) during the previous financial year, as per the details given below:
- ii. Issuers to pay @ Rs.11.00 (*) per folio (ISIN position) in the respective depositories, subject to a minimum as mentioned below:

<i>Nominal value of admitted securities (Rs.)</i>	<i>Annual Custodial Fee payable by an Issuer to each Depository (Rs.) (*)</i>
Upto 5 crore	9,000
Above 5 crore and upto 10 crore	22,500
Above 10 crore and upto 20 crore	45,000
Above 20 crore	75,000

** Plus service tax as applicable*

- iii. The average no. of folios (ISIN positions) for an Issuer may be arrived at by dividing the total number of folios for the entire financial year by the total number of working days in the said financial year.
- iv. Temporary ISIN shall not be considered for the purpose of computing the annual issuer charges.
- v. If the issuer fails to make the payment, Depositories may charge penal interest subject to a maximum of 12% per annum.

3.2 Activation of ISIN in case of IPO and additional issue of shares/ securities

Depositories shall activate the ISINs only on the date of commencement of trading on the stock exchanges in case of IPOs for both the equity and debt securities.⁸⁰

⁷⁸ Reference Circular MRD/DoP/SE/Dep/Cir-2/2009 dated February 10, 2009 and Circular SEBI/MRD/SE/DEP/Cir-4/2005 dated January 28, 2005

⁷⁹Reference Circular CIR/MRD/ DP/05/2011 dated April 27, 2011 and Circular CIR/MRD/DP/18/2015 dated December 09,2015

⁸⁰ Reference Circular SEBI/MRD/DEP/Cir-2/06 dated January 19, 2006 and Circular CIR/MRD/DP/ 21 /2012 dated August 02, 2012 and DDHS email dated February 20, 2020

- i. Further, in order to curtail the transfer of additional issue of shares/ securities including by way of further public offerings, rights issue, preferential allotment, bonus issue etc of the listed company, prior to receipt of final listing / trading approval, the depositories shall devise a mechanism so that such new securities created shall be frozen till the time final listing/ trading permission is granted by the exchange.⁸¹
- ii. In order to achieve the above, the Depositories are advised to allot such additional shares/securities under a new temporary ISIN which shall be kept frozen. Upon receipt of the final listing/ trading permission from the exchange for such additional shares/ securities, the shares/securities credited in the new temporary ISIN shall be debited and the same would get credited in the preexisting ISIN for the said security. Thereafter, the additional securities shall be available for trading.
- iii. The stock exchanges are advised to provide the details to the depositories whenever final listing / trading permission is given to securities. Further, in case of issuance of equity shares by a company, listed on multiple stock exchanges, the concerned stock exchanges shall synchronize their effective dates of listing / trading approvals and intimate the same to depositories in advance.
- iv. In similar lines, depositories are advised to follow similar process as provided above even in case of units of REITs/InvITs as securities of a listed company.

3.3 *Streamlining the Process of Rights Issue*⁸²

3.3.1 SEBI simplified the rights issue process to make it more efficient and effective, by amending the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 ("ICDR Regulations") and SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("LODR Regulations"). Accordingly, following changes are made with respect to the Rights Issue process:

- 1.1 The period for advance notice to stock exchange(s) under Regulation 42(2) of LODR Regulations has been reduced from at least 7 working days to at least 3 working days (excluding the date of intimation and the record date), for the purpose of rights issue.
- 1.2 Issuance of newspaper advertisement disclosing date of completion of dispatch and intimation of same to the stock exchanges for dissemination on their websites, as per Regulation 84 (1) of ICDR Regulations, shall be

⁸¹ Reference Circular CIR/MRD/DP/24/2012 dated September 11, 2012

⁸²Reference Circular SEBI/HO/CFD/DIL2/CIR/P/2020/13 dated January 22, 2020

completed by the issuer at least 2 days before the date of opening of the issue.

1.3 Introduction of dematerialized Rights Entitlements (REs) -

- 1.3.1 In the letter of offer and the abridged letter of offer, the issuer shall disclose the process of credit of REs in the demat account and renunciation thereof.
- 1.3.2 REs shall be credited to the demat account of eligible shareholders in dematerialized form.
- 1.3.3 In REs process, the REs with a separate ISIN shall be credited to the demat account of the shareholders before the date of opening of the issue, against the shares held by them as on the record date.
- 1.3.4 Physical shareholders shall be required to provide their demat account details to Issuer / Registrar to the Issue for credit of REs not later than two working days prior to the issue closing date, such that credit of REs in their demat account takes place at least one day before the issue closing date.

1.4 Trading of dematerialized REs on stock exchange platform -

- 1.4.1 REs shall be traded on secondary market platform of Stock exchanges, with T+2 rolling settlement, similar to the equity shares. Trading in REs on the secondary market platform of stock exchanges shall commence along with the opening of the issue and shall be closed at least four days prior to the closure of the rights issue.
- 1.4.2 Investors holding REs in dematerialized mode shall be able to renounce their entitlements by trading on stock exchange platform or off-market transfer. Such trades will be settled by transferring dematerialized REs through depository mechanism, in the same manner as done for all other types of securities.

1.5 Payment mode - Application for a rights issue shall be made only through ASBA facility.

1.6 No withdrawal of application shall be permitted by any shareholder after the issue closing date.

- 3.3.2 The detailed procedures on the Rights Issue process are given at Annexure I for due compliance.

- 3.3.3 These provisions shall be applicable for all rights issues and fast track rights issue where Letter of Offer (LoF) is filed with the stock exchanges on or after February 14, 2020.
- 3.3.4 All entities involved in the Rights Issue process are advised to take necessary steps to ensure compliance with these provisions including the procedures stated at Annexure I.

Annexure I

Procedures on the Rights Issue process

A. Application Form

- a. The issuer shall dispatch a common application form to its shareholders as on the record date. Along with application form, the issuer shall also send the details of the rights entitlements of the shareholder separately.
- b. This application form can be used both by shareholder or renouncee.
- c. Registrar to the issue shall also upload the application forms on its website.
- d. Applicants can use application form available on the website of registrar to the issue or printed forms sourced from the issuer, merchant bankers or registrars to the issue.
- e. In terms of Regulation 78 of the ICDR Regulations, investor also has option to make an application in writing on a plain paper.

B. Credit of Rights Entitlements (“REs”) in dematerialized form

- a. The depositories shall put necessary procedures in place for issue and credit of REs in demat mode.
- b. The issuer making a rights issue of specified securities shall ensure that it has made necessary arrangements with depositories to issue and credit the REs in demat mode in the demat accounts of shareholders holding shares as on the record date.
- c. A separate ISIN shall be obtained by the issuer for credit of REs.
- d. Issuer shall specify the ISIN for REs while announcing the record date. However, for issues where the record date is announced before February 14, 2020, and the letter of offer is filed with the stock exchanges on or after February 14, 2020, the Issuer shall file the letter of offer with the stock exchanges only after it has obtained ISIN for REs.



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- e. Based on the rights entitlement ratio, the issuer shall credit REs in dematerialized mode through corporate action to shareholders holding shares as on record date. The ISIN of REs shall be kept frozen (for debit) in the depository system till the date of opening of the issue.
- f. Physical shareholders shall be required to provide their demat account details to Issuer / Registrar to the Issue for credit of REs not later than two working days prior to issue closing date, such that credit of REs in their demat account takes place at least one day before issue closing date.
- g. In case of fractional entitlements of REs, the fractional part shall be ignored by rounding down the entitlement.
- h. The issuer shall submit details of total REs credited to the stock exchanges immediately after completing the corporate action for the same and shall obtain requisite trading approval from the stock exchanges.
- i. The details with respect to shareholder entitlement shall be made available on the website of the Registrar to the issue and the investors shall be able to check their respective entitlements on the website of the Registrar by keying their details, after adequate security controls to ensure that investors' information is made available only to the particular investor. Issuer shall also carry these links on their website.
- j. If the demat account of a shareholder is frozen or demat account details are not available, including shares held in unclaimed suspense account or in the account of IEPF Authority, then REs shall be credited in a suspense escrow demat account of the Company and an intimation should be sent to such shareholder by the issuer / Registrar to the issue.
- k. The issuer shall intimate issue closing date to the depositories at least one day before the issue closing date, and the depositories shall suspend the ISIN of REs for transfers, from issue closing date.
- l. REs which are neither renounced nor subscribed by the shareholders, shall be lapsed after closure of the Rights Issue.
- m. Issuer Company shall ensure that REs which are lapsed are extinguished from the depository system once securities are allotted pursuant to Rights Issue. Once allotment is done, the ISIN for REs shall be permanently deactivated in the depository system by the depositories.

C. Renunciation process and trading of REs on stock exchange platform:



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- a. The stock exchanges shall put necessary procedures in place for trading of REs on stock exchange platform.
- b. REs credited to demat account can be renounced either by sale of REs using stock exchanges platform or off-market transfer and such trades will be settled by transferring dematerialized REs through depository mechanism in the same manner as done for all other types of securities.
- c. For sale of REs through stock exchange, investors can place order for sale of REs only to the extent of REs available in the demat account of the investor. Trading in REs on the secondary market platform of Stock exchanges will happen electronically on T+2 rolling settlement basis where T being the date of trading. The transactions will be settled on trade-for-trade basis.
- d. Issuer shall inform the dates of issue opening and closing to the stock exchanges and the depositories at the time of filing the letter of offer with the stock exchanges.
- e. Trading in REs shall commence on the date of opening of the issue and shall be closed at least four days prior to the closure of rights issue.

D. Submission of Application form in Rights Issue

- a. All investors (including renouncee) shall submit application forms using ASBA facility through the Self Certified Syndicate Banks (SCSB) network during the issue period.
- b. Investor shall submit only one application form for REs available in a particular demat account.

E. Allotment process in the rights issue

- a. Facility for correction of bid data as collated by the SCSBs after issue closing shall be provided for period of one day i.e. on next working day after issue closing.
- b. Registrar shall obtain demographic details of all applicants from depositories.
- c. Registrar shall obtain details of holders of REs as on issue closing date, from the depositories.
- d. After reconciliation of valid ASBA applications, funds blocked and REs demat holding list, the registrar shall finalise allocation of securities offered through rights offering.
- e. Registrar shall credit the shares to the respective demat accounts of the applicants based on basis of allotment approved by the

designated stock exchange and shall issue instructions to unblock bank accounts wherever necessary.

3.4 Registrar and Share Transfer Agent

3.4.1 Appointment of a single agency for share registry work⁸³

All work related to share registry pertaining in terms of both physical and electronic shares shall be maintained at a single point i.e. either in-house by the company or by a SEBI registered Registrar and Transfer Agent.

3.4.2 Inter-Depository transfers⁸⁴

In case of inter-Depository transfers of securities, the Registrars shall communicate the confirmation of such transfers within two hours, failing which such transfers shall be deemed to have been confirmed. The Registrars shall not reject inter-Depository transfers except where

- i. A Depository does not have adequate balance of securities in its account or
- ii. there is mismatch of transfer requests from the Depositories.

3.4.3 Common Registrars and Share Transfer agents⁸⁵

Every company shall appoint the same Registrars and Share Transfer agents for both the depositories.

3.4.4 Dematerialisation requests⁸⁶

- i. Registrars and Share Transfer agents shall accept partial dematerialisation requests and will not reject or return the entire dematerialization request where only a part of the request had to be rejected. In cases where a DP has already sent information about dematerialisation electronically to a Registrar but physical shares have not yet been delivered, the Registrar shall accept the demat request and carry out dematerialization on an indemnity given by the DP and proof of dispatch of document given by DP.
- ii. It is clarified that the above provision shall be applicable to all the securities like scrips, bonds, debentures, debenture stock or other marketable securities eligible

⁸³ Reference Circular D&CC/FITTC/Cir-15/2002 dated December 27, 2002

⁸⁴ Reference Circular no. SMDRP/Policy/Cir-28/99 dated August 23, 1999

⁸⁵ Reference Circular SMDRP/Policy/Cir-28/99 dated August 23, 1999

⁸⁶ Reference: D&CC/ 1099 / 2002 dated November 01, 2002



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to be held in dematerialised form in a depository as defined in Regulation 42 of the SEBI (Depository and Participants) Regulations, 2018.

3.5 *Mandatory admission of debt instruments on both the Depositories*⁸⁷

Debt instruments shall necessarily be admitted on both the Depositories.

3.6 *Specifications related to International Securities Identification Number (ISINs) for debt securities issued under the SEBI (Issue and Listing of Debt Securities) Regulations, 2008*⁸⁸

3.6.1 International Securities Identification Number (ISINs):

3.6.1.1 A maximum number of 17 International Securities Identification Numbers (ISINs) maturing in any financial year shall be allowed. Additionally 12 ISINs shall also be available for the issuance of the capital gains tax debt securities by the authorized issuers under section 54EC of the Income Tax Act 1961 on private placement basis.

3.6.1.2 Out of 17 ISINs maturing in a financial year, the bifurcation of ISINs shall be as under:

- i. A maximum of 12 ISINs maturing per financial year shall be allowed only for plain vanilla debt securities. Further, within these 12 ISINs, the issuer can issue both secured and unsecured debt securities
- ii. A maximum of 5 ISINs (i.e. for structured debt securities such as debt securities with call and/or put option, etc.) maturing per financial year shall be allowed only for structured products/market linked debt securities issued under the SEBI circular Cir/IMD/DF/17/2011 dated September 28, 2011, relating to issue and listing of structured/market linked debt securities.

3.6.1.3 An issuer issuing only structured/market linked debt securities, may utilise the entire bucket of 12 ISINs in a financial year only for structured/market linked debt securities. However, in such a scenario, the additional 5 ISINs as mentioned in paragraph 3.6.1.2ii above shall not be available to an issuer for utilization, either for structured debt securities or for plain vanilla debt securities.

3.6.1.4 In case of structured /market linked debt securities which have embedded options viz. call and/or put option, the maturity of ISINs shall be reckoned on basis of original maturity date of debt securities.

For example, if a structured debt securities having maturity of 5 years, which is callable after 3 years and thereafter every year until its

⁸⁷Reference Circular D&CC/FITTC/Cir-13/2002 dated November 1, 2002 and Circular MRD/DoP/SE/Dep/Cir-36/04 dated October 27, 2004

⁸⁸ Reference Circular CIR/IMD/DF-1/67/2017 dated June 30, 2017



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redemption, then the debt securities shall be grouped in the bucket of 5 years maturity period which is its original maturity period even though it may be callable after a period of 3 years.

3.6.1.5 The provisions of this circular shall be applicable for debt securities issued in the financial year (FY) 2017-18 i.e. after the date of this circular and shall not be applicable to the ISINs maturing in respect of the debt securities issued prior to the FY 2017-18. However, post FY 2017-18, whatever issuances are made by the issuer, the issues shall be grouped and consolidated under the ISIN maturing in the same FY.

3.6.2 Exemptions from applicability of ISINs:

The following classes of debt securities issued for raising regulatory capital are exempted from the applicability of provisions of this circular:

- 3.6.2.1 Tier II bonds issued by Housing Finance Companies (HFCs), the maturity period of which is not less than five years issued as per "Master Circular-The Housing Finance Companies (NHB) Directions, 2010" dated July 01, 2016;
- 3.6.2.2 Tier II bonds issued by the standalone Primary dealers, with minimum maturity of five years issued as per "Standalone primary Dealers (Reserve Bank) Directions, 2016" dated August 25, 2016;
- 3.6.2.3 Subordinated debt issued by insurance companies, which is either perpetual or the maturity period of which is not less than ten years for life, general and reinsurance companies and seven years for health insurance companies issued as per the "IRDAI (Other forms of Capital) Regulations, 2015" dated November 13, 2015;
- 3.6.2.4 Additional Tier 1 bonds, which are perpetual, issued by banks under Basel III norms and Tier II bonds, having minimum maturity period of five years, issued by banks under the Basel III norms as per the "Master Circular-Basel III Capital Regulations" dated July 01, 2015.
- 3.6.2.5 Bonds issued by banks to raise resources for lending to long term infrastructure sub-sectors and affordable housing, which have a minimum maturity of seven years issued as per RBI circular dated July 15, 2014 on "Issue of Long Term bonds by banks-Financing of infrastructure and affordable housing".
- 3.6.2.6 Perpetual debt instrument issued by Systemically Important Non-Deposit taking Non-Banking Financial Companies issued as per RBI circular dated October 29, 2008 on "Enhancement of NBFCs' capital raising option for capital adequacy purposes";
- 3.6.2.7 Tier II bonds issued by Non-Systemically Important Non-Deposit taking Non-Banking Financial Company issued as per RBI "Master Direction-Non-Banking Financial Company-Non-Systemically Important Non-

deposit taking Company (Reserve Bank) Directions, 2016" dated September 01, 2016.

3.6.3 Mechanism for honouring debt obligations arising out of capping of ISINs :

- 3.6.3.1 An issuer may honour its debt obligations/liabilities, arising out of such ISIN restriction, in the manner as deemed feasible to them i.e. the issuer can make staggered repayments or bullet maturity re-payments or in any other manner deemed so.
- 3.6.3.2 An issuer may offer different type of payment options to different category of investors subject to such disclosures being made in the information memorandum in order to manage their asset liability mismatch.
For e.g. an insurance company may be offered staggered redemption, however mutual fund may be offered bullet payment.
- 3.6.3.3 Also, in case of any modification in terms or structure of the issue viz. change in terms of payment, change in interest pay-out frequency etc. the issuer may make such modification by following procedure as has been laid out in Regulation 59 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.
- 3.6.3.4 **Record Date:** There may be cases where multiple record dates would arise on account of staggered payment or other cases viz. frequency of payment etc. In such a case, when announcing multiple record dates, the issuer has to disclose clearly to the stock exchanges the basis of payment to the investors viz. pro-rata, first cum basis etc.

3.6.4 Time limit for carrying out necessary changes to the Articles of Association (AOA)/charter/constitution of the issuer:

In order to comply with the provisions of clause (a) of Regulation 20A of the SEBI (ILDS) regulations, the issuer shall have a time period of six months from the date of this circular to make an enabling provision in its Articles of Association to carry out consolidation and re-issuance of debt securities.

3.6.5 Reporting and Monitoring:

3.6.5.1 Issuers:

- i. All the issuers who have made private placement of debt securities under the SEBI (Issue and Listing of Debt Securities) Regulations, 2008, shall within fifteen working days of issue of this circular submit a statement containing data in the format as prescribed below:

Name of the	ISIN number	Issue date	Maturity date	Coupon rate	Payment frequency	Embedded option if any	Amount issued	Amount outstanding
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issue r							

- ii. Also, an issuer shall within fifteen working days from the end of every half year, submit a statement, to the recognized stock exchange, where its debt securities are listed, as well as to the depository containing data in the format as prescribed above.
- iii. In case there is any modification in terms or structure of the issue viz. change in terms of payment, change in interest pay-out frequency etc. as specified in paragraph 3.6.3.3 above, the issuer shall, forthwith, inform the same to the depository.
- iv. An issuer shall within thirty working days from end of six months from the date of this circular submit a confirmation certificate to Stock Exchanges with respect to compliance with para 3.6.4 above.

3.6.5.2 Depositories:

- i. Upon receipt of the report as specified in paragraph 3.6.5.1ii and 3.6.5.1iii above, the depository shall upload the same on the centralized database for corporate bonds/debentures as per SEBI circular CIR/IMD/DF/17/2013 dated October 22, 2013 as well as the Integrated trade Repository for corporate bonds.
- ii. The RSE shall within five working days of the expiry of the period as specified in paragraph 3.6.5.1ii above, send the reports received by it to the depositories for the purposes of their reconciliation.
- iii. The depositories shall thereafter within five working days of receipt of reports from the recognised stock exchanges, send a status report to the latter regarding utilization of ISINs by the issuers.

Based on the queries and representations received from time to time, certain clarifications are issued:⁸⁹

- i. It is clarified that structured products/market linked debt securities as mentioned in paragraph 3.6.1.2ii of the master circular refer to the structured products/market linked debentures as per the SEBI circular Cir/IMD/DF/17/2011 dated September 28, 2011.
- ii. With respect to paragraph 3.6.1.3 of the master circular, it is clarified that in case of debt securities, where call and/or put option is exercised, the issuer, if so desires, may issue additional debt securities for the balance period viz. remaining period of maturity of earlier debt securities. For example, if an issuer has issued debt securities in the month of August 2017

⁸⁹ Reference circular CIR/DDHS/P/59/2018 dated March 28, 2018

having maturity period of three years and callable after one year, then in such a scenario if the call option is exercised in the month of August 2018, then for the balance two years period viz (September 2018-August 2020) the issuer may issue additional debt securities maturing in August 2020, under the same ISIN.

Provided that the aforesaid additional issue shall be subject to the condition that the aggregate count of outstanding ISINs maturing in the financial year in which the original issue of debt securities (bearing call and/or put option) is due for expiring, shall not exceed the prescribed limit of ISINs.

- iii. With respect to paragraph 3.6.1.5 of the master circular, it is clarified that for all the debt securities issued in the financial year (FY) 2017-18 on or after July 01, 2017, all the ISINs corresponding to these issues, maturing in any financial year, shall adhere to the limit of 12/5 ISINs.
 - iv. Additionally, it may be noted that in case of conversion of partly paid debt securities to fully paid debt securities, such conversion shall not be counted as an additional ISIN under paragraph 3.6.1.2 of the master circular.
 - v. With respect to Paragraph 3.6.2 of the master circular, it is clarified that the exemption as granted under paragraph 3.6.2.5 of the master circular shall also be available to All India Term Lending and Refinancing Institutions (AITLRI) as notified by RBI and Infrastructure Debt Funds registered as Non-Banking Finance Companies subject to them issuing debt securities with minimum five years maturity.
 - vi. All the exemption from the applicability of ISIN circular, as have been outlined in paragraph 3.6.2 of the master circular and paragraph v above shall be available only till June 30, 2020 and shall not continue beyond that period. Thus, no exemption from the applicability of ISIN circular shall be available to any issuer for debt securities issued on or after July 01, 2020.
- It is further clarified that for the class of entities, mentioned in paragraph 3.6.2 of the master circular and paragraph v above, for whom exemption is available, the said exemption shall be applicable only from paragraph 3.6.1 and 3.6.3 of the master circular.
- vii. With respect to paragraph 3.6.3 of the master circular, it is clarified that the issuer shall, while making an issue of debt securities, disclose upfront in the Information Memorandum/Disclosure Document that further issuances may be made under the same ISIN. However, if such a disclosure is not made by the issuer then compliance shall have to be made with regulation 59 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.



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- viii. With respect to paragraph 3.6.5.1ii of the master circular, it is clarified that the statement to be submitted to the stock exchanges shall be submitted half yearly on the basis of the financial year i.e. latest by April 15 and October 15 of each financial year.

3.7 American Depository Receipts (ADRs)/Global Depository Receipts (GDRs)

3.7.1 Delivery of underlying shares of GDRs/ADRs in dematerialised form⁹⁰

Underlying shares of GDRs/ADRs shall be compulsorily delivered in dematerialised form. Pursuant to RBI directions in this regard, a non-resident holder of ADRs/GDRs issued by a company registered in India, on surrender of such ADRs/GDRs, can acquire the underlying shares when such shares are released by the Indian Custodian of the ADR/GDR issue. Further, the company whose shares are so released, or a Depository shall enter in the register or books, wherein such securities are registered or inscribed, an address outside India of the non-resident holder of shares.

3.7.2 Tracking of underlying shares of GDRs/ADRs⁹¹

To ensure easy tracking of the underlying shares released on conversion of the “depositories receipts” all such shares shall be credited to a separate Depository Receipts (DRs) account of the respective investor. In this regard, Depositories shall ensure that the following information is provided to the domestic custodian holding the underlying shares on a regular basis:

- i. Total number of shares at the beginning of the month
- ii. Number of shares transferred into the account (credited) during the month
- iii. Number of shares transferred out of the account (debited) during the month.
- iv. Balance at the end of the month.

This service can be availed of only by foreign investors other than the OCBs.

3.8 Framework for issue of Depository Receipts (DRs)⁹²

⁹⁰ Reference Circular SMDRP/Policy/Cir-9/99 dated May 6, 1999

⁹¹Reference Circular D&CC/FITTC/Cir-09/2002 dated July 4, 2002 and Circular D&CC/FITTC/Cir-10/2002 dated September 25, 2002

⁹²SEBI/HO/MRD/DOP1/CIR/P/2019/106 dated October 10, 2019, and
SEBI/HO/MRD2/DCAP/CIR/P/2019/146 dated November 28, 2019
SEBI/HO/MRD/DCAP/CIR/P/2020/190 dated October 01, 2020



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- 3.8.1 There are three circulars pertaining to aforesaid subject viz. [SEBI/HO/MRD/DOP1/CIR/P/2019/106 dated October 10, 2019,](#) [SEBI/HO/MRD2/DCAP/CIR/P/2019/146 dated November 28, 2019](#) and [SEBI/HO/MRD/DCAP/CIR/P/2020/190 dated October 01, 2020.](#)
- 3.8.2 Reference is drawn to Section 41 of the Companies Act, 2013, Companies (Issue of Global Depository Receipts) Rules, 2014 ('**GDR Rules**'), the Depository Receipts Scheme, 2014 ('**DR Scheme**'), Reserve Bank of India ('**RBI**') notification dated December 15, 2014, Central Government notification dated September 18, 2019 and Central Government notification dated October 07, 2019.
- 3.8.3 Only 'a company incorporated in India and listed on a Recognized Stock Exchange in India' ('**Listed Company**') may issue Permissible Securities or their holders may transfer Permissible Securities, for the purpose of issue of DR, subject to compliance with the following requirements:

Eligibility

- i. Listed Company is in compliance with the requirements prescribed under SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 and any amendments thereof.
- ii. Listed company shall be eligible to issue Permissible Securities, for the purpose of issue of DRs, if:
 - (a) the Listed Company, any of its promoters, promoter group or directors or selling shareholders are not debarred from accessing the capital market by SEBI;
 - (b) any of the promoters or directors of the Listed Company is a promoter or director of any other company which is not debarred from accessing the capital market by SEBI;
 - (c) the listed company or any of its promoters or directors is not a wilful defaulter;
 - (d) any of its promoters or directors is not a fugitive economic offender.
- iii. Existing holders shall be eligible to transfer Permissible Securities, for the purpose of issue of DRs, if:
 - (a) the Listed Company or the holder transferring Permissible Securities are not debarred from accessing the capital market by SEBI;
 - (b) the Listed Company or the holder transferring Permissible Securities is not a wilful defaulter;
 - (c) the holder transferring Permissible Securities or any of the promoters or directors of the Listed Company are not a fugitive economic offender.



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Explanation 1: The restrictions at Paragraph (ii) and (iii) above shall not apply to the persons or entities mentioned therein, who were debarred in the past by SEBI and the period of debarment is already over as on the date of filing of the document as referred at Paragraph (xiii).

Explanation 2: DR means a foreign currency denominated instrument, listed on an international exchange, issued by a foreign depository in a permissible jurisdiction on the back of permissible securities issued or transferred to a domestic custodian and includes 'global depository receipt' as defined in section 2(44) of the Companies Act, 2013.

Explanation 3: 'Foreign Depository' means a person which:

- (a) is not prohibited from acquiring permissible securities;
- (b) is regulated in any of the Permissible Jurisdiction as defined here; and
- (c) has legal capacity to issue DRs in the Permissible Jurisdiction where issue of DRs is proposed.

Explanation 4: 'transfer of permissible securities by existing holders' means deposit of existing Permissible Securities of the Listed Company with a Domestic Custodian, for the purpose of issue of DRs, pursuant to formal agreement(s) among the Listed Company and the Foreign Depository. For this purpose, the Listed Company may also enter into arrangement(s) with, Indian Depository, Domestic Custodian and existing Permissible Securities holder(s), as may be necessary.

- iv. For the purpose of an initial issue and listing of DRs, pursuant to 'transfer by existing holders', the Listed Company shall provide an opportunity to its equity shareholders to tender their shares for participation in such listing of DRs.
- v. Subsequent issue and listing of DRs, pursuant to 'transfer by existing shareholders' may take place subject to the limits approved pursuant to a special resolution in terms of GDR Rules.
- vi. A company proposing to make a public offer and list on a Recognized Stock Exchange, and also simultaneously proposing to issue Permissible Securities or transfer Permissible Securities of existing holders, for the purpose of issue of DRs and listing such DRs on an International Exchange, may seek in-principle and final approval from Recognized Stock Exchange as well as International Exchange. However, such issue or transfer of Permissible Securities for the purpose of issue of DRs shall be subsequent to, the receipt of trading approval from the Recognized Stock Exchange for the public offer.



Permissible Jurisdictions and International Exchanges

- vii. Listed Company shall be permitted to issue Permissible Securities or transfer Permissible Securities of existing holders, for the purpose of issue of DRs, only in Permissible Jurisdictions and said DRs shall be listed on any of the specified International Exchange(s) of the Permissible Jurisdiction.

Explanation 1: ‘Permissible Jurisdiction’ shall mean jurisdictions as may be notified by the Central Government from time to time, pursuant to notification no. G.S.R. 669(E) dated September 18, 2019 in respect of sub-rule 1 of rule 9 of Prevention of Money-Laundering (Maintenance of Records) Rules, 2005.

Explanation 2: ‘International Exchange(s)’ shall mean exchange(s) as may be notified by SEBI from time to time.

The Central Government vide notification dated November 28, 2019, notified the list of Permissible Jurisdictions in pursuance of notification dated September 18, 2019. Accordingly, for the purpose of Para vii above, a list of Permissible Jurisdictions and International Exchange(s) is placed at Annexure A.

Annexure A

List of Permissible Jurisdictions and International Exchanges

1. United States of America - NASDAQ, NYSE
 2. Japan - Tokyo Stock Exchange
 3. South Korea - Korea Exchange Inc.
 4. United Kingdom excluding British Overseas Territories- London Stock Exchange
 5. France - Euronext Paris
 6. Germany - Frankfurt Stock Exchange
 7. Canada - Toronto Stock Exchange
 8. International Financial Services Centre in India - India International Exchange, NSE International Exchange
- viii. Listing of DRs on specified International Exchange shall meet the highest applicable level / standards for such listing by foreign issuers.

Explanation: Examples of DR listing programs that would qualify for the aforesaid criteria:



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Issuer-sponsored Level III ADR programs listed on Nasdaq or the NYSE, DRs listed on the Main Board of the Hong Kong Stock Exchange, Global Depository Receipts admitted to the Standard Segment of the Official List of the FCA and to trading on the London Stock Exchange.

Obligations of Listed Company

- ix. Listed Company shall ensure compliance with extant laws relating to issuance of DRs, including, requirements prescribed here, the Companies Act, 2013, the Foreign Exchange Management Act, 1999 ('FEMA'), Prevention of Money-Laundering Act, 2002, and rules and regulations made thereunder. For this purpose, Listed Company may also enter into necessary arrangements with Custodian, Indian Depository and Foreign Depository.

- x. Listed Company shall ensure that DRs are issued only with Permissible Securities as the underlying.

Explanation: 'Permissible Securities' shall mean equity shares and debt securities, which are in dematerialized form and rank *pari passu* with the securities issued and listed on a Recognized Stock Exchange.

- xi. Listed Company shall ensure that the aggregate of Permissible Securities which may be issued or transferred for the purpose of issue of DRs, along with Permissible Securities already held by persons resident outside India, shall not exceed the limit on foreign holding of such Permissible Securities under the applicable regulations of FEMA:

Provided that within the above limit, the maximum of aggregate of Permissible Securities which may be issued by the Listed Company or transferred by the existing holders, for the purpose of issue of DRs, shall be such that the Listed Company is able to ensure compliance with the minimum public shareholding requirement, after excluding the Permissible Securities held by the depository for the purpose of issue of DRs.

- xii. Listed Company shall ensure that the agreement entered with the Foreign Depository, for the purpose of issue of DRs, provides that the Permissible holder, including its Beneficial Owner(s), shall ensure compliance with holding limits prescribed under Paragraph (xix).

- xiii. Listed Company shall, through an intermediary, file with SEBI and the Recognized Stock Exchange(s), a copy of the initial document, by whatever name called, for initial issue of DRs issued on the back of Permissible Securities.



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- (a) SEBI shall endeavor to forward its comments, if any, to the Recognized Stock Exchange(s) within a period of 7 working days from the receipt of the document and in the event of no comments being issued by SEBI within such period, it shall be deemed that SEBI does not have comments to offer.
- (b) Recognized Stock Exchange(s) shall take into consideration the comments of SEBI while granting in-principle approval to the Listed Company and decide on the approval within 15 working days of receipt of application and required documents.

Further, final document for such initial issue shall be filed with Recognized Stock Exchange(s) and SEBI for record purpose.

- xiv. Listed Company shall ensure that any public disclosures made by the Listed Company on International Exchange(s) in compliance with the requirements of the Permissible Jurisdiction where the DRs are listed or of the International Exchange(s), are also filed with the Recognized Stock Exchange as soon as reasonably possible but not later than twenty-four hours from the date of filing.

Permissible holder

- xv. Permissible holder means a holder of DR, including its Beneficial Owner(s), satisfying the following conditions:
 - (a) who is not a person resident in India;
 - (b) who is not a Non-Resident Indian (NRI)

Explanation 1:‘Beneficial Owner’ shall have the same meaning as provided in proviso to sub-rule 1 of rule 9 of Prevention of Money-Laundering (Maintenance of Records) Rules, 2005, as amended by the Central Government vide notification no. G.S.R. 669(E) dated September 18, 2019.

Explanation 2: The Permissible holder, including its Beneficial Owner(s), shall be responsible for ensuring compliance with this requirement.

Voting rights

- xvi. Listed Company shall ensure that the agreement entered between the holder of DRs, the Listed Company and the Depository provides that the voting rights on Permissible Securities, if any, shall be exercised by the DR holder through the Foreign Depository pursuant to voting instruction only from such DR holder.

Pricing

- xvii. In case of a simultaneous listing of, Permissible Securities on Recognised Stock Exchange(s) pursuant to a public offer / preferential allotment / qualified institutions placement under Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018, and DRs on the International Exchange, the price of issue or transfer of Permissible Securities, for the purpose of issue of DRs by Foreign Depository, shall not be less than the price for the public offer / preferential allotment / qualified institutions placement to domestic investors under the applicable laws.
- xviii. Where Permissible Securities are issued by a Listed Company or 'transferred by the existing holders', for the purpose of issue of DRs by the Foreign Depository, the same shall be issued at a price, not less than the price applicable to a corresponding mode of issue of such Permissible Securities to domestic investors under the applicable laws.

Obligations of Indian Depository, Foreign Depository and Domestic Custodian

- xix. Indian Depositories, in consultation with each other, shall develop a system to ensure that aggregate holding of DR holders along with their holding, if any, through offshore derivative instruments and holding as a Foreign Portfolio Investor belonging to same investor group shall not exceed the limit on foreign holding under the FEMA and applicable SEBI Regulations. For this purpose, Indian Depositories shall have necessary arrangement with the Domestic Custodian and / or Foreign Depository.

Based on discussion with market participants, the broad operational guidelines for the above purpose are placed at **Annexure** below. Indian Depositories, in consultation with each other and market participants, may prescribe the formats and other details, as may be necessary to operationalize the above.

Explanation- For the purposes of Paragraph (xix), the term 'investor group' shall have the meaning as prescribed to such term in the Securities and Exchange Board of India (Foreign Portfolio Investors) Regulations, 2019 or amendments thereof.

- xx. Domestic Custodian shall maintain records in respect of, and report to, Indian depositories all transactions in the nature of issue and cancellation of depository receipts, for the purpose of monitoring limits.

- xxi. Indian Depositories shall coordinate among themselves and with Domestic Custodian to disseminate:
- (a) the outstanding Permissible Securities against which the DRs are outstanding; and,
 - (b) the limit up to which Permissible Securities can be converted to DRs.
- xxii. The Foreign Depository shall not issue or pre-release the DRs unless the Domestic Custodian has confirmed the receipt of underlying Permissible Securities.
- 3.8.4 Words and expressions used and not defined here but defined in the DR Scheme, Securities Contracts (Regulation) Act, 1956 or the Securities and Exchange Board of India Act, 1992 or the Depositories Act, 1996 or the Companies Act, 2013 or the Reserve Bank of India Act, 1934 or the Foreign Exchange Management Act, 1999 or Prevention of Money-Laundering Act, 2002, and rules and regulations made thereunder shall have the meanings respectively assigned to them, as the case may be, in those Acts, unless the context requires otherwise.
- Power to remove difficulties**
- 3.8.5 In case of any difficulties in the application or interpretation or to relax strict enforcement of the aforesaid requirements, the Board may issue clarifications through guidance notes or circulars after receipt of request from the issuer.
- 3.8.6 The above provisions shall be applicable only to DR issuance by a Listed Company after the effective date i.e. October 10, 2019.

Annexure

1. Listed Company shall appoint one of the Indian Depository as the Designated Depository for the purpose of monitoring of limits in respect of Depository Receipts.
2. The Designated Depository in co-ordination with Domestic Custodian, other Depository and Foreign Depository (if required) shall compute, monitor and disseminate the Depository Receipts (DRs) information as prescribed in the framework. The said information shall be disseminated on website of both the Indian Depositories. For this purpose, the Designated Depository shall act as a Lead Depository and the other depository shall act as a Feed Depository.
3. Domestic Custodian shall:

- i. Provide one-time details of DRs in the format and manner as may be prescribed by the Indian Depositories.
- ii. Provide the requisite information as may be prescribed by Designated Depository for the purpose of computation of information in respect of Depository Receipts as and when requested.
- iii. Ensure that the underlying permissible securities, pertaining to a listed company, against which DRs are issued in the Permissible Jurisdiction, are held in a demat account, under a separate Type & Sub-Type as prescribed by the Indian Depositories for the purpose of issue of DRs.
- iv. Provide certificate / declaration / information, to the Designated Depository in the prescribed format upon termination/cancellation of DR program. For this, the issuer or Foreign Depository shall be required to report such termination / cancellation to the Domestic Custodian.

4. Procedure for the purpose of monitoring of limits

- i. The Designated Depository shall forward the list of such companies (ISINs) for which it will be monitoring the DR issuance to Feed Depository. For any addition or deletion of ISINs, the Designated Depository shall communicate to the Feed Depository regarding the same through Incremental information sent on a periodic basis.
- ii. Feed Depository shall provide the ISIN wise demat holdings of investors tagged with separate sub-type to the Designated Depository on a daily basis.
- iii. The Designated Depository shall ascertain the details of holdings pertaining to Foreign Depository lying under demat account(s) tagged under such separate Type & Sub-Type as well as other investors with 'DR' sub type held at both depositories and consolidate such holdings to arrive at the outstanding Permissible Securities against which the DRs are outstanding.
- iv. Calculation of headroom i.e. 'the limit up to which Permissible Securities can be converted to DRs', may be undertaken in the following manner:

Particulars	
(A)	Number of DRs originally issued including corporate action
(B)	Outstanding Permissible Securities against which the DRs are outstanding
(C)	Re-issuance approval granted by Domestic Custodian (unutilized) at End of Day
Headroom = A - (B + C)	the limit up to which Permissible Securities can be converted to DRs

- v. The Indian Depositories shall exchange with each other their respective list of companies, for dissemination of DR headroom related information, which shall be consolidated by both depositories and thereafter published on their respective websites.

5. Re-issuance mechanism

- i. For the purpose of re-issuance of permissible securities, a Foreign Investor shall request SEBI registered Broker with requisite quantity of securities (based on available headroom) required for re-issuance of depository receipts which shall be forwarded to the Domestic Custodian.
- ii. Based on last available headroom disseminated by Designated Depository, the Domestic Custodian shall grant approval (T- day where T is date of approval granted by Domestic Custodian) to such request received from SEBI registered Broker for re-issuance purpose which shall be valid for a period of 3 trading days (T+3) from the date of approval of request granted by Domestic Custodian.
- iii. The Domestic Custodian shall report such request approvals along with requisite quantity granted to Designated Depository on same day (i.e. T day) and based on which the Designated Depository shall block the quantity for the purpose of calculation of Headroom.

- iv. The Domestic Custodian shall report the status of utilisation of such approved request to the Designated Depository upon receipt of securities in the demat account of Foreign Depository for the purpose of calculation of Headroom. The domestic custodian shall report the final utilisation status of such approved request with respect to receipt of securities on D+1 basis (where D is a date of credit of security in the Foreign Depository's account) before such time as may be prescribed by Designated Depository. In case of non-receipt of securities within the specified timeline, Custodian shall unblock the requisite quantity of approval granted and report the same to Designated Depository.

6. Monitoring of Investor group limits

- i. FPI shall report the details of all such FPIs forming part of the same investor group as well as Offshore Derivative Instruments (ODI) subscribers and / or DR holders having common ownership, directly or indirectly, of more than fifty percent or on the basis of common control, to its Designated Depository Participant (DDP). The investor group may appoint one such FPI to act as a Nodal entity for reporting the aforesaid grouping information to its DDP in the format enclosed at **Annexure A**. Further, such Nodal FPI shall report the investment holding in the underlying Indian security as held by ODI subscriber and / or as DR holder, including securities held in the Depository Receipt account upon conversion ('DR conversion' account), to its Domestic Custodian on a monthly basis (by the 10th of every month) in the format enclosed at **Annexure B**. Similarly, the FPIs who do not belong to the same investor group shall report such investment holding details in the underlying Indian security as ODI subscriber and / or as DR holder, including securities held in the 'DR conversion' account, to its Custodian in the aforesaid format on a monthly basis (by 10th of the month).
- ii. The DDP shall report FPI grouping information as reported by Nodal FPI to such Indian Depository (by 17th of the month) where FPI group demat accounts are held in the manner and format as specified by such Indian Depository. Similarly, the Custodian of Nodal entity (who also happen to be the DDP) shall report the investment holdings in the underlying Indian security as held by the ODI subscriber and / or DR holder in respect of the aforesaid FPI group on monthly basis to such Indian Depository (by 17th of the month) where FPI group demat accounts are held in the manner and format as specified by such Indian Depository.

iii. The Depository which monitors the FPI group limits shall club the investment pertaining to DR holding, ODI holding and FPI holding of same investor group and monitor the investment limits as applicable to FPI group in a Listed Indian company on a monthly basis. However, in respect of FPIs which do not belong to the same investor group, responsibility of monitoring the investment limits of FPI shall be with the respective DDP / Custodian. The Custodian of such FPIs not forming part of investor group shall club the investment as held by FPIs as well as investment as held by such FPI in the capacity of ODI subscriber and / or DR holder and monitor the investment limits as applicable to single FPI. In case where the investment holding breaches the prescribed limits, the Indian Depository / Custodian, as the case may be, shall advise the concerned investor / investor group, to divest the excess holding within 5 trading days similar to requirement prescribed under SEBI Circular dated November 05, 2019 on 'Operational Guidelines for FPIs & DDPs under SEBI (Foreign Portfolio Investors), Regulations 2019 and for Eligible Foreign Investors.

Annexure - A

Sr. N o.	Name of reporting FPI (Nodal Entity)	Registrati on No. of Reporting FPI (Nodal Entity) mentioned in column B	Name of FPI / ODI Subscrib er with whom the applicant shares, ownership of more than 50% common control	Type of Client viz. FPI or ODI subscriber or DR holder	Registrati on No. of FPI mentioned at Column D	LEI No. of entity mentioned at Column D (for ODI subscriber or DR holder)	If ODI subscriber, please mention name of dealing FPI	Jurisdi c tion / Count ry of entity menti on ed at Colum n D
A	B	C	D	E	F	G	H	I



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Annexure - B

Sr. No.	Name of reporting FPI (Nodal Entity) mentioned in column B	Registration No. of Reporting FPI (Nodal Entity)	Name of ODI Subscriber or DR holder having investment in Indian Securities through ODI or DR route	LEI No. of ODI subscriber or DR holder mentioned at Column D	ISIN of the Indian Security	ISIN Description or name of the security	Quantity of securities held (in ratio as being held in India)	Value of securities held	As on date (DD-MM-M-YYYY)
A	B	C	D	E	F	G	H	I	J

Note

1. Reference ISIN No. – ISIN of the underlying Indian Security (ISINs issued by NSDL for underlying security).
2. The quantity of securities in the requisite ISIN / or Indian Security shall be reported in the ration as being held in India.
3. The securities shall be reported as at the end of the month.
4. For the purpose of valuation, the closing price of such security as at the end of the month in India be considered for the computation of value of securities held.

3.9 *Issuance, listing and trading of Perpetual Non-Cumulative Preference Shares (PNCPS) and Innovative Perpetual Debt Instruments (IPDIs)/ Perpetual Debt Instruments (PDIs) (commonly referred to as Additional Tier 1 (AT 1) instruments)*⁹³

3.9.1 Perpetual Non-Cumulative Preference Shares (PNCPS') and Innovative Perpetual Debt Instruments (IPDIs) / Perpetual Debt Instruments (PDIs) (commonly referred to as AT 1 instruments) are essentially non-equity regulatory instruments, forming part of a bank's capital, governed by Reserve Bank of India (RBI) guidelines and issued under the issuance and listing framework given under Chapter VI of the

⁹³Reference: Circular No. SEBI/HO/DDHS/CIR/P/2020/199 dated October 6, 2020

SEBI (Issue and Listing of Non-Convertible Redeemable Preference Shares) Regulations, 2013 ("NCRPS Regulations").

- 3.9.2 These instruments have certain unique features which, inter-alia, grant the issuer (i.e. banks, in consultation with RBI) a discretion in terms of writing down the principal / interest, to skip interest payments, to make an early recall etc. without commensurate right for investors to legal recourse, even if such actions of the issuer might result in potential loss to investors.
- 3.9.3 Given the nature and contingency impact of these AT 1 instruments and the fact that full import of the discretion is available to an issuer, may not be understood in the truest form by retail individual investors, the matter was discussed in SEBI's advisory committee on the development of corporate bond market in India viz. Corporate Bonds and Securitization Advisory Committee (CoBoSAC). Based on the recommendations of the CoBoSAC, the following shall be the additional framework related to issuance, listing and trading of PNCPS and IPDIIs which are proposed to be listed:

a. Manner of Issuance:

- i. The issuance of AT1 instruments shall be done mandatorily on the Electronic Book Provider (EBP) platform irrespective of the issue size in terms of SEBI Circulars [SEBI/HO/DDHS/CIR/P/2018/05 dated January 05, 2018](#) and [SEBI/HO/DDHS/CIR/P/2018/122 dated August 16, 2018](#).
- ii. "Securities" as defined in clause 1.1.8 of Schedule A of SEBI circular SEBI/HO/DDHS/CIR/P/2018/05 dated January 05, 2018, shall include:
 - i) Perpetual non-cumulative preference shares (PNCPS)
 - ii) Innovative perpetual debt instruments (IPDIIs) and
 - iii) Perpetual debt instruments (PDIs)

b. Investors

Issuers and Stock Exchanges shall ensure that only QIBs are allowed to participate in the issuance of AT1 instruments.

c. Allotment size

The minimum allotment of AT1 instruments shall not be less than Rs.1 crore.

d. Trading lot size

The minimum trading lot size for AT1 instruments shall be Rs.1 crore.

e. Other requirements:

Issuers, in addition to making disclosures as per Schedule I of the SEBI NCRPS Regulations, shall comply with the following:

- i. Disclosures as specified in Annex I.
- ii. Provisions of circulars as specified in Annex II.
- iii. Specific disclosures about:
 - a) Details of all the conditions upon which the call option will be exercised by them for AT1 instruments, in the Information /Private Placement Memorandum.
 - b) Risk factors, to include all the inherent features of these AT1 instruments highlighted above.
 - c) Point of Non Viability (PONV) clause: The absolute right, given to the RBI, to direct a bank to write down the entire value of its outstanding AT1instruments/bonds, if it thinks the bank has passed the Point of Non Viability (PONV), or requires a public sector capital infusion to remain a going concern.

Annex I

S.no	Description of disclosure
1	An undertaking from the issuer stating that the necessary documents for the creation of the charge, where applicable, including the Trust Deed would be executed within the time frame prescribed in the relevant regulations/act/rules etc. and uploaded on the website of the Designated Stock exchange, where the AT1 Instruments have been listed, within 5 working days of execution of the same.
2	An undertaking that permission / consent from the prior creditor for a second or pari passu charge being created, where applicable, in favor of the trustees to the proposed issue has been obtained.
3	Latest Audited / Limited Review Half Yearly Consolidated (wherever available) and Standalone Financial Information (Profit & Loss statement, Balance Sheet and Cash Flow statement) and auditor qualifications.
4	A copy of the latest annual report to the Trustee and the Trustee shall be obliged to share the details submitted under this clause with all 'Qualified Institutional Buyers' (QIBs) within 180 days from the end of the financial year and other existing AT 1 instrument holders within 2 working days of their specific request.
5	Gross debt-equity ratio of the company, before and after the issuance of the AT1 instrument.

6	The names of the debenture trustee(s) with a statement to the effect that debenture trustee(s) has given its consent to the Issuer for its appointment and in all the subsequent periodical communications sent to the holders of AT1 instruments.
7	If the security is backed by a guarantee or letter of comfort or any other document / letter with similar intent, a copy of the same. In case such document does not contain detailed payment structure (procedure of invocation of guarantee and receipt of payment by the investor along with timelines), disclosure of the same in the placement memorandum.
8	Copy of consent letter from the Debenture Trustee.
9	Other details: i. Issue/instrument specific regulations - relevant details (Companies Act, RBI, guidelines etc.). ii. Application process.
10	Other issue details: Coupon rate, Step Up/Step Down Coupon Rate, Coupon Payment Frequency, Coupon payment dates (Dates on which coupon will be paid.), Coupon Type (Fixed, floating or other coupon structure), Coupon Reset Process (including rates, spread, effective date, interest rate cap and floor etc). Day Count Basis (Actual/ Actual), Security (where applicable) (Including description, type of security, type of charge, likely date of creation of security, minimum security cover, revaluation, replacement of security [", interest to the AT1 instruments holder over and above the coupon rate as specified in the Trust deed and disclosed in the IM/PPM, Roles and responsibility of Debenture Trustee.

Annex II

S. no	Circular date	Subject	Cir.no
1	October 22, 2013	Centralized Database for Corporate Bonds/ Debentures	CIR/IMD/DF/17/2013
2	October 29, 2013	Clause I of the Circular on Issues pertaining to primary issuance of debt securities	CIR/IMD/DF/18/2013
3	October 13, 2015	Format of uniform Listing Agreement	CIR/CFD/CMD/6/2015
4	November 11, 2016	Clarification on aspects related to day count convention for debt securities issued under the SEBI ILDS Regulations,	CIR/IMD/DF-1/122/2016

5	June 30, 2017	Specifications related to International Securities Identification Number (ISINs) for debt securities issued under the SEBI (Issue and Listing of Debt Securities) Regulations, 2008.	CIR/IMD/DF-1/ 67/2017
6	March 28, 2018	Clarifications with respect to circular on "Specifications related to International Securities Identification Number (ISINs) for debt securities issued under the SEBI (Issue and Listing of Debt Securities) Regulations, 2008"	CIR/DDHS/P/59/2018
7	January 05, 2018	Electronic book mechanism for issuance of securities on private placement basis	SEBI/HO/DDHS/CIR/P/2018/05
8	August 16, 2018	Electronic book mechanism for issuance of securities on private placement basis- Clarification	SEBI/HO/DDHS/CIR/P/2018/122

3.10 *Electronic Clearing System (ECS) facility*

3.10.1 Use of ECS for refund in public/rights issues.⁹⁴

For locations where facility of refund through ECS is available details of applicants shall be taken directly from the database of the depositories in respect of issues made completely in dematerialised form. Accordingly, DPs shall maintain and update on real time basis the MICR (Magnetic Ink Character Recognition) code of Bank branch of BOs and other bank details of the applicants in the database of depositories. This is to ensure that the refunds through ECS are made in a smooth manner and that there are no failed/wrong credits.

3.10.2 Updation of bank accounts details, MICR code and IFSC of bank branches by Depository Participants (DPs)⁹⁵

⁹⁴Reference Circular SEBI/MRD/DEP/Cir-3/06 dated February 21, 2006 and circular SEBI/CFD/DIL/DIP/29/2008/01/02 dated February 1, 2008

⁹⁵ Reference: MRD/DEP/PP/123624 /2008 dated April 23, 2008

- i. It has been informed by RBI that they have been receiving complaints from managers to the issues that the funds routed through the electronic mode are getting returned by destination banks because of incorrect or old account numbers provided by beneficiary account holders.
- ii. RBI has stated that Investors will have to ensure through their DPs that bank account particulars are updated in master record periodically, to ensure that their refunds, dividend payments etc. reach the correct account, without loss of time. RBI has also suggested incorporation of Indian Financial System Code (IFSC) of customer's bank branches apart from 9 digit MICR code; since IFSC of bank's branches is used for remittance through National Electronic Funds Transfer (NEFT).
- iii. It is advised that necessary action be taken in this matter to ensure that correct account particulars of investors are available in the database of depositories.

3.11 Withdrawal by issuers from the depository⁹⁶

- i. As regards voluntary withdrawal by issuers from the depository, it is informed that listed companies may not be allowed to withdraw from the depository system unless they delist their securities from the stock exchanges.
- ii. As regards companies under liquidation are concerned, it is informed that deactivation of the ISIN may be only done in cases where companies have been liquidated. In other cases, where companies are being liquidated, deactivation of ISIN resulting in total freezing may not be desirable as it will disallow investors to hold shares in dematerialized form

3.12 Further issue of shares under Section 86 of Companies Act and Companies (Issue of Share capital with Differential Voting Rights) Rules, 2001⁹⁷

In all cases of shares issued by companies under Section 86(a) (ii) of Companies Act and Companies (Issue of Share Capital with Differential Voting Rights) Rules, 2001, separate ISIN may be allotted to differentiate such shares from ordinary shares.

⁹⁶Reference: MRD/DoP/NSDL/VM/ 162378 /2009 dated May 06, 2009

⁹⁷ Reference: MRD/DoP/MC/141442 /2008 dated October 17, 2008



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3.13 *Streamlining issuance of SCORES Authentication for SEBI registered intermediaries⁹⁸*

- 3.13.1 Vide Circular No. CIR/OIAE/1/2014 dated December 18, 2014 SEBI directed all listed companies and SEBI registered intermediaries (excluding Stock Brokers and Depository Participants) to send their details as per Form-A and Form-B respectively, annexed to the said Circular, to SEBI in hard copy and by email to scores@sebi.gov.in in order to obtain SCORES user id and password.

Any existing or new listed company or SEBI registered intermediary, not having SCORES user id and password were also required to obtain the same.

- 3.13.2 In partial modification of the earlier directions, the generation of SCORES user id and password has been automated for all new SEBI registered intermediaries. This has been done to streamline the process of providing SCORES credentials in the interest of investors.
- 3.13.3 SCORES user id and password details shall be sent to all new SEBI registered intermediaries, through an auto-generated e-mail, upon completion of process of online grant of registration by SEBI.
- 3.13.4 The SCORES user id and password details shall be sent to the e-mail id of the Contact Person/Compliance Officer as provided in the online Registration Form. In view of the same, newly registered intermediaries are not required to submit Form-B, as provided in Circular No. CIR/OIAE/1/2014 dated December 18, 2014, to SEBI.
- 3.13.5 The primary e-mail address in SCORES is the e-mail ID where all notifications related to SCORES complaints are sent to the SEBI registered intermediary. All existing and new SEBI registered intermediaries will now be able to update their primary e-mail address and registered address on their own.
- 3.13.6 All listed companies will continue to follow the process, as provided in CIR/OIAE/1/2014 dated December 18, 2014, for obtaining SCORES user id and password.

3.14 *Clarification on applicability of regulation 40(1) of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 to open offers, buybacks and delisting of securities of listed entities⁹⁹*

⁹⁸Reference: Circular No. SEBI/HO/OIAE/IGRD/CIR/P/2019/86 dated August 02, 2019



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- 3.14.1 The proviso to regulation 40(1) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ('LODR Regulations') states that "*..except in case of transmission or transposition of securities, requests for effecting transfer of securities shall not be processed unless the securities are held in the dematerialized form with a depository.*"
- 3.14.2 SEBI received representations from investors expressing concerns that they have not been able to participate in open offers, buybacks and delisting of securities of listed entities since the securities held by them were not in dematerialized form.
- 3.14.3 It is clarified that shareholders holding securities in physical form are allowed to tender shares in open offers, buy-backs through tender offer route and exit offers in case of voluntary or compulsory delisting. However, such tendering shall be as per the provisions of respective regulations.

3.15 *Continuous disclosures and compliances by listed entities under SEBI (Issue and Listing of Municipal Debt Securities) Regulations, 2015*¹⁰⁰

- 3.15.1 SEBI (Issue and Listing of Municipal Debt Securities) Regulations, 2015 (ILDM Regulations) prescribe disclosures to be made by issuers making public issues of debt securities or seeking listing of municipal debt securities issued on private placement basis to the Stock Exchange(s). SEBI vide [Circular No. CIR/IMD/DF1/60/2017 dated June 19, 2017](#) ("hereinafter to be referred as ILDM Circular") had specified continuous disclosures and compliance by issuers of debt securities under ILDM Regulations.
- 3.15.2 Subsequently, ILDM regulations have been amended to, inter alia, widen the definition of issuers, revise timelines for submission of annual and half yearly financial results, structure payment mechanism through escrow accounts, etc.
- 3.15.3 Regulation 29 of ILDM regulations provides that the Board shall have the power to issue directions through guidance notes or circulars. Accordingly, it has been decided to specify as under:

- (a) Clause 2.1 of the ILDM circular regarding disclosure of financial information is substituted to read as under:

"2.1 Disclosure of Financial Information

⁹⁹Reference: Circular No. SEBI/HO/CFD/CMD1/CIR/P/2020/144 dated July 31, 2020

¹⁰⁰Reference: SEBI/HO/DDHS/CIR/P/134/2019 dated November 13, 2019

While disclosing its financial information to the Stock Exchange(s), listed entities shall comply with the following:

2.1.1. Half Yearly Unaudited Financial results

(a) The listed entities shall prepare and submit half yearly un-audited financial results to the stock exchange as soon as the same are available but within forty five days of the end of the first half year.

2.1.2. Annual Audited Financial Results

(a) The listed entities shall submit annual audited financial results for the financial year, within sixty days from the end of the financial year along with the audit report.

Provided that listed entities, who are being audited by CAG, may adopt the following two step process for audit of its accounts

(i) The first level audit shall be carried out by CAG appointed audit firm (auditor). The auditor so appointed shall conduct audit of accounts of the listed entity and such audited annual financial results shall be submitted to the Stock exchange(s) within sixty days from the end of the financial year.

(ii) The final annual audited financial results as audited by CAG and after approval of the same by the Standing Committee and/or the Governing Body or Board of Directors of the listed entities, as applicable, shall be submitted to the Stock exchange(s) within nine months from the end of the financial year.

2.1.3. Preparation and Submission of Financial Results

While preparing financial results, the listed entities shall comply with the following

(a) The half yearly un-audited financial results and annual audited financial results shall contain comparative information for the immediately preceding corresponding half year or financial year respectively.

(b) The half yearly un-audited financial results and annual audited financial results submitted to the Stock exchange(s) shall be taken on record by Standing Committee or General Body or Board of Directors or Board of Trustee, as applicable or equivalent



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(c) The listed entities shall disclose debt equity ratio, debt service coverage ratio, interest service coverage ratio etc along with the half yearly and annual financial results.

2.1.4. Annual Report

The annual report shall contain the following

- (a) Balance sheet
 - (b) Income and expenditure account
 - (c) Statement of cash flows (a summary of cash flow over a given period of time)
 - (d) Receipts and payments accounts (detailed as per the account head)
 - (e) Notes to Account
 - (f) Financial performance indicators
 - (g) Auditor's report
 - (h) Municipal commissioner's report on the Annual Financial Statements and the qualifications and comments made in the report of the auditor; and
 - (i) Standing committee's action taken report on the qualifications and comments made in the Report of the Auditor and the Report of the Municipal commissioner.
- (b) The following shall be added after para (16) in the Annexure 1 of Clause 2.2.2(b) of ILDM Circular on disclosing material and price sensitive information.

“17. any material adverse changes affecting ability to service municipal debt securities”

(c) Clause 2.2.2.(c) of the ILDM Circular regarding timely payment of interest or principal obligations or both is substituted to read as under:

“(c) Timely payment of interest or principal obligations or both

The listed entities shall submit a certificate to the stock exchange(s) intimating the status of payment of interest or principal or both within five working days of the same becoming due in respect of municipal debt securities.”

(d) Clause 2.3.2. of ILDM Circular regarding Credit rating is modified to read as under:-

“2.3.2. Credit Rating

- (a) Every credit rating shall be reviewed at least once a year, by a registered credit rating agency.
- (b) In the event of credit rating being downgraded by two or more notches below the rating assigned at the time of issue, the listed entities shall disclose the reasons for downgrade in rating and the steps, if any, it intends to take to recover the rating.
- (c) Any change in credit rating shall be promptly disseminated on the Stock exchange(s) where such securities are listed.”
- (e) Clause 2.3.3. (e) of ILDM Circular regarding periodic disclosure shall be deleted.

3.15.4 In addition to the above modifications, it has been decided to further specify as under:-

3.15.4.1 Escrow Payment Mechanism

The listed entities are required to create following escrow accounts for the purpose of payment obligations due to the investors.

3.15.4.1.1. No lien escrow account

- (a) The listed entities shall deposit tax revenues, user charges and/or grants etc., as detailed in the offer document/private placement memorandum, to this account.

3.15.4.1.2. Interest payment account

- (a) The listed entities shall, throughout the tenure of the municipal debt securities, maintain an amount equivalent to one year interest obligation in this account. The amount received in the “No lien escrow account” may be transferred to this account to maintain the required balance.

- (b) In case of any shortfall of funds in this account, the listed entities are required to maintain the minimum balance from other accounts.

3.15.4.1.3. Sinking fund account

- (a) A Sinking fund account shall be created for redemption of municipal debt securities.

(b) The listed entities shall transfer the principal amount due for repayment, as per the timelines and amount specified in the offer document or preliminary placement memorandum. The amount received in the "No lien escrow account" may be transferred to this account to maintain the required balance in the "Sinking fund account".

3.15.4.1.4. General Account

(a) The surplus funds in the "No lien escrow account" after meeting minimum balance in the "Interest payment account" and "Sinking funding account" can be transferred to General account on a monthly basis after obtaining certificate from debenture trustee that the listed entities has discharged its debt obligations in a timely manner.

3.15.4.1.5. All the above accounts except "General account" shall be monitored by the debenture trustee.

3.15.4.1.6. The listed entities shall within 45 days from the end of the quarter, disclose the balances in the aforesaid accounts along with notes pertaining to transfers made to/from these accounts to stock exchange(s) for dissemination.

3.15.4.1.7. The amounts available in the escrow accounts may be invested in Government Securities or Treasury Bills or Fixed deposit with Scheduled commercial bank or liquid mutual fund or gilt fund or debt mutual funds or debt ETFs with a lien in favour of the debenture trustee.

3.15.4.2 Interim use of issue proceeds

(a) The listed entities may invest the issue proceeds in Government Securities or Treasury Bills or Fixed deposit with Scheduled commercial bank or liquid mutual fund or gilt fund or debt mutual funds or debt ETFs with a lien in favour of the debenture trustee pending utilization of funds for the stated objects.

3.15.4.3 Utilization of funds for projects and status of implementation of projects

(a) The listed entities shall submit a report containing status of implementation of project(s) which is being financed along with reasons for delay, if any and the amount of utilizations of issue proceeds for execution of the projects as stated in the offer document/ placement memorandum, as applicable, on a half yearly basis along with financial results to the stock exchange(s).

3.15.4.4 Day Count Convention



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(a) The day count convention for calculation of interest payment for listed municipal debt securities shall be Actual/ Actual. The manner of calculation of Actual/ Actual for municipal debt securities shall be as specified in Clause I of SEBI Circular no. CIR/IMD/DF/18/2013 dated October 29, 2013 and Circular no. CIR/IMD/DF1/122/2016 dated November 11, 2016 issued for debt securities listed under ILDS Regulations.

3.16 Non-compliance with certain provisions of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 and the Standard Operating Procedure for suspension and revocation of trading of specified securities¹⁰¹

3.16.1 Pursuant to the amendments to Listing Regulations and to further streamline the Standard Operating Procedure for dealing with non-compliances, the following guidelines are stated.

3.16.2 Henceforth, the stock exchanges shall, having regard to the interests of investors and the securities market:

- a) Take action in case of non-compliances with the Listing Regulations as specified in **Annexure I** and
- b) Follow the Standard Operating Procedure ("SOP") for suspension and revocation of suspension of trading of specified securities as specified in **Annexure II**.

Stock Exchanges may deviate from the above, if found necessary, only after recording reasons in writing.

3.16.3 In order to ensure effective enforcement of the Listing Regulations, the depositories, on receipt of intimation from the concerned recognized stock exchange, shall freeze or unfreeze, as the case may be, the entire shareholding of the promoter(s) in such non-compliant listed entity as well as all other securities held in the demat account of the promoter(s). Further, if a non-compliant entity is listed on more than one recognized stock exchange, the concerned recognized stock exchanges shall take uniform action under these provisions in consultation with each other.

3.16.4 The recognized stock exchanges shall take necessary steps to implement these provisions. The recognized stock exchanges shall disclose on their website the action(s) taken against the listed entities for non-compliance(s); including the details of the respective requirement, amount of fine levied, details regarding the freezing of shares of promoters, the period of suspension etc.

¹⁰¹Reference: SEBI/HO/CFD/CMD/CIR/P/2020/12 dated January 22, 2020.

3.16.5 The recognized stock exchanges may keep in abeyance the action against any non-compliant entity or withdraw the action in specific cases where specific exemption from compliance with the requirements under the Listing Regulations/moratorium on enforcement proceedings has been provided for under any Act, Court/Tribunal Orders etc.

3.16.6 The recognized stock exchanges are advised to bring these provisions to the notice of listed entities and the listed entities shall in turn bring the same to the notice of their promoter(s).

ANNEXURE I

ACTION TO BE TAKEN IN CASE OF NON-COMPLIANCES

1. The recognized stock exchanges shall take action for non-compliance with the provisions of the Listing Regulations & circulars/guidelines issued thereunder, by a listed entity as under:

Sl. No.	Regulation	Fine payable and/or other action to be taken for non- compliance in respect of listed entity
1.	Regulation 6(1) Non-compliance with requirement to appoint a qualified company secretary as the compliance officer	₹ 1,000 per day
2.	Regulation 7(1) Non-compliance with requirement to appoint share transfer agent	₹ 1,000 per day
3.	Regulation 13(1)* Failure to ensure that adequate steps are taken for expeditious redressal of investor complaints	₹ 1,000 per day
4.	Regulation 13(3) Non-submission of the statement on shareholder complaints within the period prescribed under this regulation or under any circular issued in respect of redressal of investor grievances	₹ 1,000 per day

5.	Regulation 17(1) Non-compliance with the requirements pertaining to the composition of the Board including failure to appoint woman director	₹ 5,000 per day
6.	Regulation 17(1A) Non-compliance with the requirements pertaining to appointment or continuation of Non-executive director who has attained the age of seventy five years	₹ 2,000 per day
7.	Regulation 17(2) Non-compliance with the requirements pertaining to the number of Board meetings	₹ 10,000 per instance
8.	Regulation 17(2A) Non-compliance with the requirements pertaining to quorum of Board meetings.	₹ 10,000 per instance
9.	Regulation 18(1) Non-compliance with the constitution of audit committee	₹ 2,000 per day
10.	Regulation 19(1)/ 19(2) Non-compliance with the constitution of nomination and remuneration committee	₹ 2,000 per day
11.	Regulation 20(2) / (2A) Non-compliance with the constitution of stakeholder relationship committee	₹ 2,000 per day
12.	Regulation 21(2) Non-compliance with the constitution of risk management committee	₹ 2,000 per day
13.	Regulation 23 (9) Non-compliance with disclosure of related party transactions on consolidated basis.	₹ 5,000 per day

14.	Regulation 24A Non-compliance with submission of secretarial compliance report	₹ 2000 per day
15.	Regulation 27(2) Non-submission of the Corporate governance compliance report within the period provided under this regulation	₹ 2,000 per day
16.	Regulation 28 (1) Non-compliance with obtaining in-principle approval of stock exchange(s) before issuance of securities.	₹ 50,000 per instance
17.	Regulation 29(2)/29(3) Delay in furnishing prior intimation about the meeting of the board of directors	₹ 10,000 per instance of non-compliance per item
18.	Regulation 31 Non-submission of shareholding pattern within the period prescribed	₹ 2,000 per day
19.	Regulation 31A(3)(a) Non-compliance pertaining to delay in submission of reclassification application to stock exchanges	₹ 5,000 per day
20.	Regulation 32(1) Non-submission of deviations/ variations in utilization of issue proceeds	₹ 1,000 per day
21.	Regulation 33 Non-submission of the financial results within the period prescribed under this regulation	₹ 5,000 per day

<p>(Levy of fine is in addition to the requirement of providing reasons for non-submission of the financial result as per circular no. CIR/CFD/CMD-1/142/2018 dated November 19, 2018.)</p>		
22.	Regulation 34 Non-submission of the Annual Report within the period prescribed under this regulation	₹ 2,000 per day
23.	Regulation 42(2)/42(3)/ 42(4)/42(5) Delay in/ non-disclosure of record date/ dividend declaration or non-compliance with ensuring the prescribed time gap between two record dates/ book closure dates	₹ 10,000 per instance of non-compliance per item
24.	Regulation 43A Non-disclosure of Dividend Distribution Policy in the Annual Report and on the websites of the entity.	₹ 25,000 per instance
25.	Regulation 44(3) Non-submission of the voting results within the period provided under this regulation	₹ 10,000 per instance of non-compliance
26.	Regulation 44(5) Non-convening of annual general meeting within a period of five months from the close of financial year.	₹ 25,000 per instance
27.	Regulation 45(3) Non-obtaining approval of stock exchange(s) before filing request for change of name with Registrar of Companies.	₹ 25,000 per instance



28.	Regulation 46 Non-compliance with norms pertaining to functional website	Advisory/warning letter per instance of non-compliance per item ₹10,000 per instance for every additional advisory/warning letter exceeding the four advisory/ warning letters in a financial year
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*Fines would be imposed even during suspension period for non-compliance of regulation 13(1), the modalities of the same would be dealt separately

2. Concerned recognized stock exchange(s) shall display on their website non-compliance by the listed entity and details of fine levied/ action taken.
3. The amount of fine realized as per the above structure shall be credited to the "Investor Protection Fund" of the concerned recognized stock exchange.
4. The fines specified above shall continue to accrue till the time of rectification of the non-compliance to the satisfaction of the concerned recognized stock exchange or till the scrip of the listed entity is suspended from trading for non-compliance with aforesaid provisions*. Such accrual shall be irrespective of any other disciplinary/enforcement action(s) initiated by recognized stock exchange(s)/SEBI.
5. Every recognized stock exchange shall review the compliance status of the listed entities and shall issue notices to the non-compliant listed entities within 30 days from the due date of submission of information. Non-compliant listed entity shall ensure compliance with the requirement(s) and pay fines as per the circular within 15 days from the date of such notice. If the non-compliant listed entity fails to comply with the aforesaid requirement(s) and/or pay fine levied within the stipulated period as per the notice stated above, the concerned recognized stock exchange(s) shall, upon expiry of the period indicated in the notice, shall issue notices to the promoter(s) of such non-compliant entities, to ensure compliance with the requirement(s) and pay fines within 10 days from the date of such notice. While issuing the aforementioned notices, the recognized stock exchange shall also send intimation to other recognized stock exchange(s) where the shares of the non-compliant entity are listed.
6. The concerned recognized stock exchange(s) shall, upon expiry of the stipulated periods indicated in the aforementioned notices, forthwith intimate the depositories to freeze the entire shareholding of the promoter(s) in such entity as well as all other



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securities held in the demat accounts, if the non-compliant listed entity fails to comply with the aforesaid requirement(s) and/or pay fine levied. The depository(ies) shall immediately freeze such demat accounts and also intimate the promoter(s) about the details of non-compliances resulting in freezing of their demat accounts.

7. If the non-compliant listed entity subsequently complies with the respective requirement(s) and pays the fine levied, in terms of this circular, the concerned recognized stock exchange(s) shall display on their website details of compliance and fines paid by the listed entity. Simultaneously, the recognized stock exchange(s) shall intimate the depositories to unfreeze the entire shareholding of the promoter(s) in such entity as well as all other securities held in the demat account of the promoter(s), immediately from the date of compliance.

8. If any non-compliant listed entity fails to pay the fine despite receipt of the notice as stated above, the recognized stock exchange(s) may also initiate appropriate enforcement action.

9. The recognised stock exchange(s) shall also advise the non-compliant listed entity to ensure that the subject matter of non-compliance which has been identified and indicated by the recognised stock exchange(s) and any subsequent action taken by the recognised stock exchange(s) in this regard shall be placed before the Board of Directors of the company in its next meeting. Comments made by the board shall be duly informed to the recognised stock exchange(s) for dissemination.

**Fines would be imposed even during suspension period for non-compliance of regulation 13(1), the modalities of the same would be dealt separately.*

ANNEXURE II

STANDARD OPERATING PROCEDURE (SOP)

1. If a listed entity is non-compliant with the provisions of the Listing Regulations as specified under paragraph 2 below, in terms of these provisions, the concerned recognized stock exchange(s) shall:

- (a) Move the scrip of the listed entity to "Z" category wherein trades shall take place on 'Trade for Trade' basis by following procedure prescribed at paragraph A below and
- (b) Suspend trading in the shares of such listed entity by following procedure prescribed at paragraph B below.

If a listed entity rectifies non-compliance with the provisions of the Listing Regulations, the stock exchanges shall neither move the listed entity to "Z" category nor suspend trading in the shares of such listed entity. However, the entire shareholding of the promoter(s) in the non-compliant listed entity as well as all other securities held in the demat account(s) of the promoter(s) shall remain frozen till the non-compliant listed entity complies with respective requirement(s) and pays the applicable fines.

In cases, where the non-compliant listed entity complies with the respective requirement(s) and pays the applicable fine, the recognized stock exchange(s) shall intimate the depositories to unfreeze the entire shareholding of the promoter(s) in such entity as well as all other securities held in the demat account of the promoter(s), immediately from the date of compliance.

2. Criteria for suspension of the trading in the shares of the listed entities:

- (a) failure to comply with regulation 17(1) with respect to board composition including appointment of woman director for two consecutive quarters;
- (b) failure to comply with regulation 18(1) with respect to constitution of audit committee for two consecutive quarters;
- (c) failure to comply with regulation 27(2) with respect to submission of corporate governance compliance report for two consecutive quarters;
- (d) failure to comply with regulation 31 with respect to submission of shareholding pattern for two consecutive quarters;
- (e) failure to comply with regulation 33 with respect to submission of financial results for two consecutive quarters;
- (f) failure to comply with regulation 34 with respect to submission of Annual Report for two consecutive financial years;
- (g) failure to submit information on the reconciliation of shares and capital audit report, for two consecutive quarters;
- (h) receipt of the notice of suspension of trading of that entity by any other recognized stock exchange on any or all of the above grounds.

Non-compliance for two consecutive quarters of aforementioned Regulations 17(1) and 18(1), refers to two complete consecutive quarters (180 days) of non-compliance.

3. If the non-compliant listed entity complies with the aforesaid requirement(s) after the date of suspension, the recognized stock exchange(s) shall revoke the suspension of trading of its shares by following the procedure prescribed at paragraph C below.

4. If the non-compliant listed entity fails to comply with the aforesaid requirement(s) within 6 months from the date of suspension, the recognized stock exchange(s) shall initiate the process of compulsory delisting of the non-compliant listed entity in

accordance with the provisions of the Securities Contracts (Regulation) Act, 1956, the Securities Contracts (Regulation) Rules, 1957 and the Securities and Exchange Board of India (Delisting of Equity Shares) Regulations, 2009 as amended from time to time.

A. Standard operating procedure for moving the scrip to "Z" Category

- i. If a listed entity defaults in complying with the provisions of the Listing Regulations as specified under paragraph 2 above, in terms of these provisions, the concerned recognised stock exchange(s) shall, in addition to imposing fine under paragraph 1 in Annexure I, move the scrip of the listed entity to "Z" category wherein trades shall take place on 'Trade for Trade' basis. However, before moving the scrip to "Z" category, the concerned recognized stock exchange(s) shall send written intimation to the non-compliant listed entity calling upon it to comply with respective requirement(s) within 7 days of the date of the intimation.
- ii. Simultaneously, the recognized stock exchange(s) shall give 10 days prior public notice to investors before moving the scrip to "Z" category or while moving the scrip out of "Z" category. While issuing the notice, the recognized stock exchange(s) shall intimate the other recognized stock exchange(s) where the shares of the non-compliant entity are listed.
- iii. If the non-compliant listed entity complies with respective requirement(s) two working days before the proposed date of movement of the scrip to "Z" category, the scrip shall not be moved to "Z" category and the concerned recognized stock exchange(s) shall give a public notice on its website informing compliance by the listed entity. While issuing the said notice, the recognized stock exchange(s) shall send intimation of notice to other recognized stock exchange(s) where the shares of the entity are listed.
- iv. The recognised stock exchange(s) shall move back the scrip of the listed entity from "Z" category to the normal trading category (if not suspended as specified in paragraph B below), provided it complies with respective provisions of the Listing Regulations. While moving the scrip back to normal trading category the recognized stock exchange(s) shall intimate the other recognized stock exchange(s) where the shares of the non-compliant entity are listed.

B. Standard operating procedure for suspending the trading

- i. If a listed entity complies with respective provisions of the Listing Regulations, no suspension proceedings would be initiated. However, before suspending the trading of a scrip, the concerned recognized stock exchange(s) shall send written intimation to the non-compliant listed entity calling upon it to comply with respective requirement(s) and pay the applicable fine within 21 days of the date of the intimation. While issuing the said intimation, the recognized stock exchange(s) shall also inform other recognized stock exchange(s) where the shares of the non-compliant entity are listed to ensure that the date



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of suspension is uniform across all the recognised stock exchange(s). Simultaneously, the recognized stock exchange(s) shall give a public notice on its website proposing possible suspension of trading in the shares of the non-compliant listed entity 30 days prior to date of suspension.

- ii. If the non-compliant listed entity complies with respective requirement(s) two working days before the proposed date of suspension, the trading in its shares shall not be suspended and the concerned recognized stock exchange(s) shall give a public notice on its website informing compliance by the listed entity. While issuing the said notice, the recognized stock exchange(s) shall send intimation of notice to other recognized stock exchange(s) where the shares of the entity are listed.
- iii. In case of failure to comply with respective requirement(s), the recognized stock exchange(s) shall suspend the trading in the shares of a non-compliant listed entity. The entire shareholding of the promoter(s) in the non-compliant listed entity as well as all other securities held in the demat account(s) of the promoter(s) shall remain frozen during the period of suspension.
- iv. While suspending trading in the shares of the non-compliant entity, the recognized stock exchange(s) shall send intimation of suspension to other recognized stock exchange(s) where the shares of the non-compliant entity are listed to ensure that the date of suspension is uniform across all the recognised stock exchange(s).
- v. After 15 days of suspension, trading in the shares of non-compliant entity may be allowed on 'Trade for Trade' basis, on the first trading day of every week for 6 months from the date of suspension. In this regard, the recognized stock exchange(s) shall give instruction to its trading members to obtain confirmation from clients before accepting an order for purchase of shares of the non-compliant listed entity on 'Trade for Trade' basis.
- vi. The recognized stock exchange(s) shall put in place a system to publish a caution message on its trading terminals, as follows: "*Trading in shares of the <Name of the Listed Entity> is presently under 'suspension and trade to trade basis' and trading shall stop completely and compulsory delisting may be initiated if <Name of the Listed Entity> does not become compliant by <Date>*".

C. Standard operating procedure for revocation of suspension of trading.

- i. If the non-compliant listed entity complies with the aforesaid requirement(s) after trading is suspended in the shares of the non-compliant entity, the recognized stock exchange(s) shall, on the date of compliance, give a public notice on its website informing compliance by the listed entity. The recognized stock exchange(s) shall revoke the suspension of trading of its shares after a period of 7 days from the date of such notice.

While issuing the said notice, the recognized stock exchange(s) shall send intimation of the notice to other recognized stock exchange(s) where the shares of the entity are listed. After revocation of suspension, the trading of shares shall be permitted only in 'Trade for Trade' basis for a period of 7 days from the date of revocation and thereafter, trading in the shares of the entity shall be shifted back to the normal trading category.

3.17 *Investor grievances redressal mechanism – Handling of SCORES complaints by stock exchanges and Standard Operating Procedure for non-redressal of grievances by listed companies¹⁰²*

1. In terms of SEBI circular SEBI/HO/CFD/CMD/CIR/P/2020/12 dated January 22, 2020, Stock Exchanges shall, having regard to the interest of investors and the securities market, inter alia take action against listed companies for non-compliance with the provisions of the Listing Regulations and circulars/guidelines issued thereunder, including failure to ensure expeditious redressal of investor complaints under Regulation 13 of the Listing Regulations
2. The procedure for handling complaints by the stock exchanges as well as standard operating procedure for actions to be taken against listed companies for failure to redress investor grievances is given.

Handling of complaints by stock exchanges:

3. Stock exchanges will be the first recourse for certain categories of complaints against listed companies as provided in Annexure-2. The procedure and actions mentioned below will be applicable for these categories of complaints only.
4. Investors are encouraged to initially take up their grievances for redressal with the concerned listed company directly. SCORES platform can also be used to submit grievances directly to the company for resolution, if the complainant has not approached the company earlier. Companies are expected to resolve the complaint directly.
5. In case the company does not redress the complaint within 30 days from the date of receipt of the complaint, such direct complaints shall be forwarded to Designated Stock Exchange (DSE) through SCORES.
6. At the time of lodging the complaint through SCORES platform, in case the complainant had approached the company earlier, the complainant shall submit all

¹⁰² Reference Circular No. SEBI/HO/OIAE/IGRD/CIR/P/2020/152 dated August 13, 2020

such details of the complaint in SCORES i.e., period of cause of event, date of grievance taken up with the entity, address of the company corresponded earlier, etc. Such complaints shall be forwarded to the DSE.

7. Upon receipt of the complaint through SCORES platform, the DSE shall take up the complaint with the company. The company is required to redress the complaint and submit an Action Taken Report (ATR) within 30 days from the date of receipt of such complaint.
8. In case the ATR is not submitted by the company within 30 days or DSE is of the opinion that the complaint is not adequately redressed and the complaint remains pending beyond 30 days, a reminder shall be issued by DSE to the listed company through SCORES directing expeditious redressal of the grievance within another 30 days.
9. On being adequately satisfied with the response of the company with respect to the complaint, the stock exchange shall submit an ATR to SEBI.
10. For any failure to redress investor grievances pending beyond 60 days by listed companies, stock exchange shall initiate appropriate action against the listed company as detailed below.

Action for failure to redress investor complaints:

11. Stock exchanges shall levy a fine of Rs. 1000 per day per complaint on the listed entity for violation of Regulation 13 (1) of SEBI (LODR) Regulations, 2015 read with SEBI circular no. SEBI/HO/CFD/CMD/CIR/P/2020/12 dated 22 January, 2020.
12. Fines shall also be levied on companies which are suspended from trading.
13. DSE shall issue a notice to the listed entity intimating them about the levy of fines while also directing them to submit ATRs on the pending complaints and payment of fines within 15 days from the date of such notice.
14. In case the listed entity fails to redress the grievances and/or pay fine levied within 15 days from the date of such notice, the concerned DSE shall issue notices to the promoter(s) of such entities, to ensure submission of ATRs on the pending complaints and payment of fines by the listed entity within 10 days from the date of such notice.

15. In case the listed entity fails to comply with the aforesaid requirement and/ or pay fine levied within the stipulated period as per the notices, the DSE shall forthwith intimate the depositories to freeze the entire shareholding of the "promoter(s)¹⁰³ in such entity as well as all other securities held in the demat account of the "promoter(s).
16. The depository(ies) shall immediately freeze such demat accounts and also intimate the promoter(s) about the details of non-compliances resulting in freezing of their demat accounts.
17. In case listed entity fails to pay the fine or resolve the complaint despite receipt of the notice as stated above, the DSE may initiate other action as deemed appropriate.
18. While issuing the aforementioned notices, the DSE shall also send intimation to other recognized stock exchange(s) where the shares of the non-compliant entity are listed.
19. Once stock exchange(s) has exhausted all options and if number of pending complaints exceed 20 or the value involved is more than Rs. 10 lakhs, stock exchanges shall forward the complaints against such listed companies to SEBI for further action, if any.
20. Stock exchanges may deviate from the above (Para 11-19), if found necessary, only after recording reasons in writing.
21. Stock exchanges shall intimate SEBI through SCORES about all actions taken against the listed company for non-resolution of the complaints and non-payment of fines.
22. The time-line for handling complaints along with timelines on the actions to be taken by stock exchanges for non-resolution of investor grievances is provided in **Annexure - 1**.
23. Fine shall be computed and levied on a monthly basis during the non-compliance period.

¹⁰³Vide Circular SEBI/HO/OIAE/IGRD/CIR/P/2020/208 dated 22 October, 2020 "Paras 15, 26, 31 and Point 2c read the words "promoter and promoter group" and "promoter/promoter group" as "promoter(s)"

24. Fine amount shall continue to accrue till the date of redressal of grievance / filing of ATR by the company or till the company is compulsorily delisted, whichever is earlier.

Action after redressal of investor grievance by the company:

25. Company will be treated as compliant if it has redressed investor's complaint and has paid fines (if any) levied.
26. In case the promoters' shareholding is frozen by the Exchange, an intimation shall be given to depositories to unfreeze the promoter(s) holdings from the date of such compliance.
27. If the company has redressed the investor's complaint but has not paid the accrued fines, the Exchange shall stop levying further fines. However, the promoters' shareholdings shall remain frozen till the payment of accrued fines.
28. If the company has not redressed the investor's complaint but has paid the accrued fines, the Exchange shall continue to levy the fines and may initiate action as deemed appropriate.
29. The recognized stock exchanges shall take necessary steps to implement these provisions. The recognized stock exchanges shall disclose on their website the action(s) taken against the listed entities for non-compliance(s) with grievances; amount of fine levied, details regarding the freezing of shares, compliance etc.
30. The above provisions are without prejudice to the power of SEBI to take action under the securities laws.
31. The recognized stock exchanges are advised to bring these provisions to the notice of listed entities and the listed entities shall in turn bring the same to the notice of their promoter(s).
32. The recognized stock exchanges may keep in abeyance the action against any non-compliant entity or withdraw the action in specific cases where specific exemption from compliance with the requirements under the Listing Regulations/moratorium on enforcement proceedings has been provided for under any Act, Court/Tribunal Orders etc.
33. These provisions shall come into force from September 01, 2020.

Annexure -1

Timelines for handling of complaints and actions in case of non-compliances

Sr No.	Activity	No of calendar days
1.	Complaint handling:	
a.	Complaint received in SCORES by the listed company	T
b.	Response to be obtained from Listed Company	Within T+30
c.	If no response received, alert to Listed company in the form of reminder for non-redressal of complaint	T+31
d.	Response to be obtained from Listed Company	Within T+60
2.	Action in case of non-compliances:	
a.	Notice to Listed company intimating the fine @ Rs. 1000/- per day, per complaint to be levied for not resolving the complaints within 60 days	T+61
b.	Notice to Promoters for non-resolution of complaints and non-payment of fine to the stock exchange.	T+76
c.	Freezing of promoters shareholdings {i.e. entire shareholding of the promoter(s) in listed company as well as all other securities held in the demat account of the promoter(s) } in demat account.	T+86
d.	Stock exchanges may take any other actions, as deemed appropriate.	
e.	Once Stock exchange has exhausted all options and if number of pending complaints exceed 20 or the value involved is more than Rs. 10 lakhs, the Exchange to forward the details of such Listed companies to SEBI for further action, if any	

Annexure -2

Nature of complaints for which these provisions are applicable

1. Non updation of address /Signature or Corrections etc
2. Non-receipt of Bonus
3. Non receipt of Dividend
4. Non receipt duplicate debt securities certificate
5. Non-receipt of duplicate share certificate
6. Non receipt of fractional entitlement

7. Non receipt of interest for delay in dividend
8. Non receipt of interest for delay in payment of interest on debt security
9. Non receipt of interest for delay in redemption proceeds of debt security
10. Non receipt of interest for delay in refunds
11. Non receipt of interest on securities
12. Non receipt of redemption amount of debt securities
13. Non receipt of refund in Public/ Rights issue
14. Non receipt of Rights Issue form
15. Non receipt of securities after conversion/ endorsement/ consolidation/ splitting
16. Non receipt of securities after transfer
17. Non receipt of securities in public/ rights issue
18. Non receipt of shares after conversion/ endorsement/ consolidation/ splitting
19. Non receipt of shares after transfer
20. Non receipt of shares after transmission
21. Non receipt of shares in public/ rights issue (including allotment letter)
22. Non-receipt of interest for delay in dispatch/credit of securities
23. Receipt of refund/ dividend in physical mode instead of electronic mode
24. Receipt of shares in physical mode instead of electronic mode
25. Demat/Remat
26. Any other nature as may be informed from time to time

However, the stock exchanges shall not handle the following type of complaints and forward the complaints as directed below:-

Sl. No.	Grievances Pertaining to	Process for handling complaints
1.	a. Deposits u/s 73 & 74 of Companies Act,2013 b. Complaint against Nidhi Companies. c. All matters as delegated under overriding powers under Companies Act2013 d. Complaints pertaining to dividend and securities transferred to IEPF	Forward the complaint to MCA under intimation to Complainant.
2.	Pension funds	Forward the complaint to Pension Fund Regulatory and Development Authority (PFRDA) under intimation to Complainant.

Sl. No.	Grievances Pertaining to	Process for handling complaints
3.	Monopoly and anti-competitive practices	Forward the complaint to Competition Commission of India (CCI) under intimation to Complainant.
4.	Chit Funds	Request complainant to approach Registrars of Chit Funds of the concerned state
5.	Insurance Companies /Brokers/ Agents/products and Service	Forward the complaint to Insurance Regulatory and Development Authority of India (IRDAI) under intimation to Complainant
6.	Housing Finance Companies	Request complainant to approach National Housing Bank (NHB)
7.	a. Companies where moratorium order is passed against the company in winding up/ insolvency proceedings. b. Companies under liquidation and official liquidator has been appointed	Request complainant to approach NCLT or the official liquidator

3.18 Automation of Continual Disclosures under Regulation 7(2) of SEBI (Prohibition of Insider Trading) Regulations, 2015 - System driven disclosures¹⁰⁴

¹⁰⁴ Circular No. SEBI/HO/ISD/ISD/CIR/P/2020/168 dated September 09, 2020

- 3.18.1 Vide Gazette Notification No. SEBI/LAD-NRO/GN/2020/23 dated July 17, 2020 Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 2015 (PIT Regulations) have been further amended.
- 3.18.2 SEBI, vide circular no. CIR/CFD/DCR/17/2015 dated December 01, 2015, CFD/DCR/CIR/2016/139 dated December 21, 2016 and SEBI/HO/CFD/DCR1/CIR/P/2018/85 dated May 28, 2018, implemented the system driven disclosures in phases, under SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011 and PIT Regulations.
- 3.18.3 Pursuant to the amendment of PIT Regulations and discussions held with the Stock Exchanges and Depositories, the system driven disclosures will be implemented for member(s) of promoter group and designated person(s) in addition to the promoter(s) and director(s) of company (hereinafter collectively referred to as *entities*) under Regulation 7(2) of PIT Regulations.
- 3.18.4 To begin with, the system driven disclosures shall pertain to trading in equity shares and equity derivative instruments i.e. Futures and Options of the listed company (wherever applicable) by the entities.
- 3.18.5 The procedure for implementation of the system driven disclosures is provided at **Annexure-A**.
- 3.18.6 The Depositories and Stock Exchanges to make necessary arrangements such that the disclosures pertaining to PIT Regulations are disseminated on the websites of respective stock exchanges with effect from **October 01, 2020**.
- 3.18.7 The system would continue to run parallel with the existing system i.e. entities shall continue to independently comply with the disclosure obligations under PIT Regulations as applicable to them till **March 31, 2021**.

- 3.18.8 As currently done, the disclosures generated through the system shall be displayed separately from the regular disclosures filed with the exchanges.
- 3.18.9 Stock Exchanges are advised to bring these provisions to the notice of all listed companies and also disseminate the same on their websites.

ANNEXURE - A

Steps/process required to be taken for implementation:

1. The various formats and timelines for sharing of data shall be standardized, as agreed upon by the depositories and exchanges.
2. Listed company shall provide the information including PAN number of Promoter(s) including member(s) of the promoter group, designated person(s) and director(s) (hereinafter collectively referred to as *entities*) as per PIT Regulations to the designated depository (selected in terms of SEBI circular ref. no. SEBI/HO/CFD/DCR1/CIR/P/2018/85 dated May 28, 2018) in the format and manner prescribed by the Depositories. For PAN exempt entities, the Investor's Demat account number(s) shall be specified by the listed company. The information shall be provided within 10 days from the date of issue of these provisions.
3. The designated depository shall share the information received from the listed company with other depository.
4. In case of any subsequent update in the details of the entities, the listed company shall update the information with the designated depository on the same day. The designated depository shall share the incremental changes with the other depository on the day of receipt from the listed company.

5. Based on the PAN of First holder/Demat account number(s), the depositories shall tag such Demat accounts in their depository systems at ISIN level.
6. The designated depository shall also share with the stock exchanges, company-wise details of entities. In case of PAN exempt entity, respective depository shall share the Demat account number(s) details with the stock exchanges. Any update (additions or deletions) in this information by listed company shall be updated by the designated depositories with the stock exchanges on a daily basis. The information shall be shared via system interface established between the depositories and stock exchanges.
7. The depositories shall provide the following data pertaining to the tagged Demat account(s) separately to the stock exchanges on daily basis:
 - Details of transactions for pledge/revocation/invocation of shares and other encumbrances such as NDU etc. of the entities.
 - Details of off market transactions of the entities.
 - Details of transmission of shares of the entities.
 - Details of corporate actions such as ESOPs, Bonus, Rights, etc. of the entities
 - Additionally, details of market transfers in case of PAN Exempt entities.
8. Based on the PAN information provided by the depositories, on daily basis, stock exchanges will identify the transactions carried out on their trading system by the entities in the equities and equity derivative instruments (wherever applicable) of the listed company/ permitted to trade on the stock exchange(s).
9. Such identified trades shall be shared by the stock exchange with all other stock exchanges where the company is listed on daily basis.

10. Each stock exchange shall consolidate the information of the transactions identified by them as well as received from other stock exchanges and the depositories. On consolidation of the transactions, if the disclosure is triggered under Regulation 7(2) of PIT Regulations, the stock exchanges shall disseminate the same on their websites. The transaction(s) carried out on T day shall be disseminated on T+2 day basis.
11. In case of any discrepancy, the issue shall be resolved by listed company, stock exchanges and depositories in coordination with one another.

3.19 *System-Driven Disclosures (SDD) under SEBI (AST) Regulations, 2011*¹⁰⁵

- 3.19.1 SEBI circulars dated December 01, 2015 and December 21, 2016 pertains to processes to be followed by Depositories, Exchanges and Registrar & Share Transfer Agents ("RTAs") for implementation of SDD. Subsequently, SEBI vide circular dated September 09, 2020 under Regulation 7(2) SEBI (PIT) Regulations, 2015 has provided a detailed procedure for SDD implementation which also requires that the capture of the PAN of the entities be done from the listed company itself, rather than through the RTAs as provided in the circular dated December 01, 2015.
- 3.19.2 In order to align the practices, use of the procedure of capturing the PAN of the promoters from listed companies as mentioned in para 2,3 & 4 of the Annexure A of the circular dated September 09, 2020 for SAST disclosures too.

The referred paras are quoted here for convenience: -

- "2. Listed company shall provide the information including PAN number of Promoter(s) including member(s) of the promoter group, designated person(s) and director(s) (hereinafter collectively referred to as entities) as per PIT Regulations to the designated depository (selected in terms of SEBI circular ref. no.*

¹⁰⁵ Reference: SEBI/CIR/CFD/DCR1/CIR/P/2020/181 dated September 23, 2020

SEBI/HO/CFD/DCR1/CIR/P/2018/85 dated May 28, 2018) in the format and manner prescribed by the Depositories. For PAN exempt entities, the Investor's Demat account number(s) shall be specified by the listed company. The information shall be provided within 10 days from the date of issue of these provisions.

3. *The designated depository shall share the information received from the listed company with other depository.*
 4. *In case of any subsequent update in the details of the entities, the listed company shall update the information with the designated depository on the same day. The designated depository shall share the incremental changes with the other depository on the day of receipt from the listed company."*
- 3.19.3 The other requirements of [SEBI circular dated December 01, 2015](#) on the subject shall remain in force.
- 3.20 *Streamlining the Process of Public Issue of Equity Shares and convertibles- implementation of Phase II of Unified Payments Interface with Application Supported by Blocked Amount*¹⁰⁶**
- 3.20.1 There are four circulars pertaining to aforesaid subject viz. [Circular No. SEBI/HO/CFD/DIL2/CIR/P/2019/50 dated April 3, 2019](#), [Circular No. SEBI/HO/CFD/DIL2/CIR/P/2019/76 dated June 28, 2019](#), [Circular No. SEBI/HO/CFD/DIL2/CIR/P/2019/85 July 26, 2019](#) and [Circular No. SEBI/HO/CFD/DCR2/CIR/P/2019/133 dated November 08, 2019](#).
- 3.20.2 This refers to SEBI circular [SEBI/HO/CFD/DIL2/CIR/P/2018/138 dated November 1, 2018](#), vide which SEBI had introduced the use of Unified Payments Interface (UPI) as a payment mechanism with Application

¹⁰⁶Circular No. SEBI/HO/CFD/DIL2/CIR/P/2019/50 dated April 3, 2019, SEBI Circular No. SEBI/HO/CFD/DIL2/CIR/P/2019/76 dated June 28, 2019, Circular No. SEBI/HO/CFD/DIL2/CIR/P/2019/85 July 26, 2019 and Circular No. SEBI/HO/CFD/DCR2/CIR/P/2019/133 dated November 08, 2019

Supported by Blocked Amount (ASBA) for applications in public issues by retail individual investors through intermediaries (Syndicate members, Registered Stock Brokers, Registrar and Transfer agent and Depository Participants), with effect from January 01, 2019. Implementation of the same was to be carried out in a phased manner to ensure gradual transition to UPI with ASBA.

- 3.20.3 Vide SEBI Circular SEBI/HO/CFD/DIL2/CIR/P/2019/76 dated June 28, 2019, Phase II was implemented from July 01, 2019. In Phase II, for applications by retail individual investors through intermediaries, the process of physical movement of forms from intermediaries to Self-Certified Syndicate Banks (SCSBs) for blocking of funds was discontinued and only the UPI mechanism with existing timeline of T+6 days was mandated, for a period of 3 months or floating of 5 main board public issues, whichever is later.
- 3.20.4 Since then, two big public issues have used the facility of UPI 2.0, wherein it was seen that the platform has become increasingly acceptable given the number of applications received in ASBA with UPI as a payment mechanism. Presently, 47 and 5 self-certified syndicate banks are eligible to act as issuer banks and sponsor banks in UPI respectively.
- 3.20.5 National Payments Corporation of India (NPCI) has assessed the situation with respect to infrastructure at banks and their logistics and suggested further tweaking of systems, procedures and timelines for various activities for smoother operations of ASBA with UPI as a payment mechanism. Similar contraction of timelines is required to be carried out by the intermediaries in the securities market.
- 3.20.6 In order to ensure that the transition to UPI in ASBA is smooth for all the stakeholders, after consultation with various intermediaries and NPCI, the timeline for implementation of Phase II was extended till March 31, 2020.

3.20.7 The revised timelines for the existing T+6 environment are placed at Annexure 1.

3.20.8 In terms of regulation 23(5) and regulation 271 of SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018, these timelines and processes shall continue to form part of the agreements being signed between the intermediaries involved in the public issuance process and lead managers shall continue to coordinate with intermediaries involved in the said process.

3.20.9 All entities involved in the process are advised to take necessary steps to ensure compliance.

3.20.10 The modalities and the date for T+3 listing shall be intimated later.

Retention of forms by Intermediaries

3.20.11 Intermediaries shall retain physical application forms submitted by retail individual investors with UPI as a payment mechanism, for a period of six months and thereafter forward the same to the issuer/ Registrar to Issue. However, in case of Electronic forms, “printouts” of such applications need not be retained or sent to the issuer. Intermediaries shall, at all times, maintain the electronic records relating to such forms for a minimum period of three years.

Detailed Timelines of Activities to be adhered in T+6 listing – Phase II (Annexure 1)

Sr. No.	Details of activities	Due Date (working day*)
<u>1.</u>	An investor, intending to subscribe to a public issue, shall submit a completed bid-cum-application form to any of the following entities:	

	<ul style="list-style-type: none"> i. an SCSB, with whom the bank account to be blocked, is maintained ii. a syndicate member (or sub-syndicate member) iii. a stock broker registered with a recognised stock exchange (and whose name is mentioned on the website of the stock exchange as eligible for this activity) ('broker') iv. a depository participant ('DP') (whose name is mentioned on the website of the stock exchange as eligible for this activity) v. a registrar to an issue and share transfer agent ('RTA') (whose name is mentioned on the website of the stock exchange as eligible for this activity) <p>Retails investors submitting application with any of the entities at (ii) to (v) above (hereinafter referred as 'Intermediaries'), have to use UPI and shall also their UPI ID in the bid-cum-application form.</p>	Issue opening date to issue closing date (where T is issue closing date)
<u>2.</u>	<p>The aforesaid entities shall, at the time of receipt of application, give an acknowledgement to investor, by giving the counter foil or specifying the application number to the investor, as a proof of having accepted the application form, in physical or electronic mode, respectively.</p> <p>(i) For applications submitted to SCSB: After accepting the form, SCSB shall capture and upload the relevant details in the electronic bidding system as specified by the stock exchange(s) and blocked funds available in the bank account specified in the form, to the extent of the application money specified.</p> <p>(ii) For applications submitted to intermediaries, with</p>	

	<p>use of UPI for payment:</p> <p>After accepting the application form, respective intermediary shall capture and upload the relevant bid details, including UPI ID, in the electronic bidding system of stock exchange(s).</p> <p>Stock exchange(s) shall validate the electronic bid details with depository's records for DP ID/Client ID and PAN Combination, on a real time basis through API Integration and bring the inconsistencies to the notice of intermediaries concerned, for rectification and re-submission within the time specified by stock exchange.</p> <p>Stock exchange(s) shall allow modification of selected fields viz. DP ID/Client ID or Pan ID (Either DP ID/Client ID or Pan ID can be modified but not BOTH), Bank code and Location code, in the bid details already uploaded.</p>	
3.	<p>For retail applications submitted to intermediaries, with use of UPI for payment:</p> <p>Stock Exchange to share bid details including the UPI ID with Sponsor Bank on a continuous basis through API integration, to enable Sponsor Bank to initiate mandate request on investors for blocking of funds.</p> <p>Sponsor Bank to initiate request for blocking of funds through NPCI to investor. Investor to accept mandate request for blocking of funds, on his / her mobile application, associated with UPI ID linked bank account.</p>	Issue opening date to issue closing date (where T is issue closing date)
4.	<p>Reconciliation Steps to be done on daily basis (for UPI Mandates):</p> <p>Step 1: Sponsor bank shall do a reconciliation of bid requests received from exchange(s) and sent to NPCI.</p>	Issue opening date to issue closing date (where T is



	<p>Sponsor bank shall ensure that all the bids received from exchange(s) are pushed to NPCI.</p> <p>Step 2: NPCI shall ensure that all the bid requests received from sponsor bank are pushed to the corresponding payment system participants of issuer banks. The issuer banks/sponsor bank shall download the mandate related UPI settlement files and raw data files from NPCI portal on daily basis after every settlement cycle and shall do a three way reconciliation with Banks UPI switch data, CBS data and the UPI raw data. NPCI shall coordinate with issuer banks /sponsor bank on continuous basis.</p> <p>Step 3: The issuer banks shall process all the incoming bid requests from NPCI and shall send the response to NPCI in real time. NPCI shall further facilitate the flow of these responses to sponsor bank.</p> <p>Step 4: Sponsor bank shall do a reconciliation of bid responses received from NPCI and sent to exchange(s). Sponsor bank shall ensure that all the responses received from NPCI are sent to the exchange(s) platform with detailed error code and description, if any.</p> <p>Step 5: Sponsor bank shall do a final reconciliation of all bid requests and responses (obtained in Step 1 and Step 4) throughout their lifecycle on daily basis and share the consolidated report not later than 07:00 PM to Merchant Banker</p> <p>Step 6: Merchant Banker shall share the consolidated file received from sponsor bank with SEBI on daily basis not later than 09:00 PM as per the format mentioned in Annexure 'A'</p> <p>Step 7: On 'T' day, after the closure of issue, Sponsor Bank shall share the consolidated data to Merchant Banker not later than 07:00 PM. Merchant Banker shall share the consolidated data as on 'T' day (data obtained</p>	issue closing date) - on daily basis
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	<p>on daily basis in step 6) to SEBI not later than 09:00 PM as per the format mentioned in Annexure 'A'</p> <p>The objective of the reconciliation exercise is to ensure that every bid entered in the exchange(s) bidding platform has successfully completed its entire lifecycle and got its response updated back in the same exchange(s) bidding platform.</p> <p>Merchant Banker shall be responsible for the reconciliation exercise and shall coordinate with NPCI, Sponsor Bank and Exchange(s) on continuous basis. Merchant Banker shall be the nodal entity for any issues arising out of public issuance process.</p>	
5.	Issue Closes	T (Issue closing date)
6.	<p><u>For retail applications submitted to intermediaries with use of UPI for payment:</u></p> <p>Sponsor Bank may not accept bid details from Stock Exchanges post 11:00 a.m.</p> <p>Sponsor Bank to initiate request for blocking of funds of investor, with confirmation cut off-time of 12:00 p.m.</p> <p>All pending requests at the cut-off time would lapse.</p> <p>Applicant to accept mandate request for blocking of funds prior to cut off-time of 12:00 p.m.</p> <p>Sponsor Bank to send confirmation of funds blocked (Final Certificate) to the registrar through stock exchange not later than 06:00 PM</p>	



	<p>For QIB & NII application submitted to intermediaries:</p> <p>Intermediaries to forward a schedule as per format given below along with the application forms to designated branches of the respective SCSBs for blocking of funds.</p> <table border="1"><thead><tr><th>FIELD NO.</th><th>DETAILS</th></tr></thead><tbody><tr><td>1.</td><td>SYMBOL</td></tr><tr><td>2.</td><td>INTERMEDIARY CODE</td></tr><tr><td>3.</td><td>INTERMEDIARY NAME</td></tr><tr><td>4.</td><td>BANK CODE</td></tr><tr><td>5.</td><td>BANK NAME</td></tr><tr><td>6.</td><td>LOCATION CODE</td></tr><tr><td>7.</td><td>APPLICATION NO</td></tr><tr><td>8.</td><td>CATEGORY</td></tr><tr><td>9.</td><td>PAN</td></tr><tr><td>10.</td><td>DP ID</td></tr><tr><td>11.</td><td>CLIENT ID</td></tr><tr><td>12.</td><td>QUANTITY</td></tr><tr><td>13.</td><td>AMOUNT</td></tr><tr><td>14.</td><td>ORDER NO</td></tr><tr><td>15.</td><td>EXCHANGE</td></tr></tbody></table> <p>(*The character length for each of fields of the schedule to be forwarded by the intermediaries along with each application form to the designated branches of the respective SCSBs for blocking of funds shall be uniformly prescribed by the stock exchange(s))</p> <p>Designated branches of SCSBs may not accept schedule and applications after T+1 day 11:00 AM</p> <p>SCSBs to begin blocking of funds.</p>	FIELD NO.	DETAILS	1.	SYMBOL	2.	INTERMEDIARY CODE	3.	INTERMEDIARY NAME	4.	BANK CODE	5.	BANK NAME	6.	LOCATION CODE	7.	APPLICATION NO	8.	CATEGORY	9.	PAN	10.	DP ID	11.	CLIENT ID	12.	QUANTITY	13.	AMOUNT	14.	ORDER NO	15.	EXCHANGE	T+1
FIELD NO.	DETAILS																																	
1.	SYMBOL																																	
2.	INTERMEDIARY CODE																																	
3.	INTERMEDIARY NAME																																	
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12.	QUANTITY																																	
13.	AMOUNT																																	
14.	ORDER NO																																	
15.	EXCHANGE																																	

	<p>Registrar to give bid file received from stock exchanges containing the application number and amount to all the SCSBs who may use this file for validation / reconciliation at their end.</p> <p><u>For all applications submitted to SCSB</u></p> <p>The respective SCSB to send confirmation of funds blocked (Final Certificate) to the registrar not later than 06:00 PM</p> <p>On 'T+1' day, after the closure of modification and mandate acceptance by applicant, NPCI shall share the analysis of failures in UPI mandate transactions, duly classifying them into business declines and technical declines and further sub-classifying them as per their error descriptions to sponsor bank not later than 08:00 PM</p> <p>On 'T+1' day, after the closure of modification and mandate acceptance by applicant, Sponsor Bank shall share the final consolidated data (Annexure 'A') and the error description analysis report received from NPCI to Merchant Banker not later than 08:15 PM</p> <p>Merchant Banker shall share the final consolidated data as per the format mentioned in Annexure 'A' (by ensuring that point 4 of the 'detailed timelines of Activities to be adhered in T+6 listing - Phase II' is strictly adhered to) and the error description analysis report received from sponsor bank to SEBI not later than 09:00 PM</p>	
7.	Third party confirmation process to be initiated by Registrar not later than 09:00 am on T+2. SCSBs and Issuer Banks to provide confirmation on the third party	T+2

	<p>applications to the registrar not later than 09:00 pm on T+2.</p> <p>Issuer, merchant banker and registrar to submit relevant documents to the stock exchange(s) except listing application, allotment details and demat credit and refund details for the purpose of listing permission.</p> <p>Registrar shall reconcile the compiled data received from the stock exchange(s), all SCSBs and Sponsor Bank (hereinafter referred to as the “reconciled data”).</p> <p>Registrar shall reject multiple applications determined as such, based on common PAN.</p> <p>Registrar to undertake “Technical Rejection” test based on electronic bid details and prepare list of technical rejection cases.</p> <p>Merchant Banker shall submit a report of compliance with all activities in T+2 to SEBI not later than 10:00 PM.</p>	
8.	<p>For every bid entered in the exchange(s) bidding platform, the audit trail shall be maintained by NPCI. The liability to compensate the investor in case of failed transactions shall be with the concerned entity in the ‘ASBA with UPI as the payment mechanism’ process (Sponsor Bank/ NPCI/ Issuer Banks) at whose end the lifecycle of the transaction has come to a halt.</p> <p>NPCI shall share the audit trail of all disputed transactions/investor complaints to the sponsor bank/Issuer banks.</p> <p>Merchant Banker shall obtain the audit trail from</p>	Issue opening date to ‘T+2’ (where T is issue closing date)

	Issuer banks/Sponsor banks for analysis and fixation of liability.	
<u>9.</u>	<p>Finalisation of technical rejection and minutes of the meeting between issuer, lead manager, registrar.</p> <p>Registrar shall finalise the basis of allotment and submit it to the designated stock exchange for approval.</p> <p>Designated Stock Exchange(s) to approve the basis of allotment.</p> <p>Registrar to prepare funds transfer schedule based on approved basis of allotment.</p> <p>Registrar / Issuer to initiate corporate action to carry out lock-in for pre-issue capital held in depository system.</p> <p>Registrar to issue funds transfer instructions to SCSBs.</p> <p>Registrar to issue funds transfer instructions to Sponsor Bank in two files, one for debit processing and the other for unblocking of funds.</p> <p>Merchant Banker shall submit a report of compliance with all activities in T+3 to SEBI not later than 09:00 PM.</p>	T+3
<u>10.</u>	<p>Registrar to receive confirmation for pre-issue capital lock-in from depositories.</p> <p>SCSBs and Sponsor Bank to credit the funds in public issue account of the issuer and confirm the same.</p> <p>Issuer shall make the allotment.</p> <p>Registrar / Issuer to initiate corporate action for credit</p>	T+4

	<p>of shares to successful allottees.</p> <p>Issuer and registrar to file allotment details with designated stock exchange(s) and confirm all formalities are complete except demat credit.</p> <p>Registrar to send bank-wise data of allottees, amount due on shares allotted, if any, and balance amount to be unblocked to SCSBs and Sponsor Bank.</p> <p>Merchant Banker shall submit a report of compliance with all activities in T+4 to SEBI not later than 09:00 PM</p> <p>Sponsor bank, in coordination with NPCI and Issuer banks, shall share the data points 4 to 8 mentioned in Annexure 'B' with the Registrar.</p> <p>Registrar shall coordinate with Sponsor Bank/SCSB's and submit a comprehensive report on status of debit/unblock requests of allottees/Non-allottees not later than 08:00 PM as per the format mentioned in Annexure 'B' to Merchant Banker.</p> <p>Merchant Banker shall submit a comprehensive report on status of debit/unblock requests (Annexure 'B') received from the Registrar to SEBI not later than 09:00 PM.</p>	
<u>11.</u>	Registrar to receive confirmation of demat credit from depositories.	T+5

	<p>Issuer and registrar to file confirmation of demat credit, lock-in and issuance of instructions to unblock ASBA funds, as applicable, with stock exchange(s).</p> <p>Issuer to make a listing application to stock exchange(s) and stock exchange(s) to give listing and trading permission.</p> <p>Issuer, merchant banker and registrar to initiate the process of publishing the allotment advertisement.</p> <p>Stock exchange(s) to issue commencement of trading notice.</p> <p>Merchant Banker shall submit a report of compliance with all activities in T+5 to SEBI not later than 09:00 PM</p>	
<u>12.</u>	<p>Issuer, merchant banker and registrar to publish allotment advertisement before the commencement of trading, prominently displaying the date of commencement of trading, in all the newspapers where issue opening/closing advertisements have appeared earlier.</p> <p>Trading commences</p> <p>Merchant Banker shall identify the non-adherence of timelines and processes ('T' to 'T+6' days) mentioned in 'detailed timelines of activities to be adhered in T+6 listing – Phase II' and submit a report to SEBI with a comprehensive analysis of entities responsible for the delay and the reasons associated with it.</p>	T+6

	Merchant Banker should diligently follow all the activities mentioned in 'detailed timelines of activities to be adhered in T+6 listing - Phase II' on daily basis from 'T' day to 'T+6' day.	
*Working days will be all trading days of stock exchanges, excluding Sundays, and bank holidays		

Annexure 'A'

Exchan ge(s)	**Bank ASBA		Syndicate ASBA					
			**Online		UPI			
	No of Unique Applications	No of Shares Blocked	No of Unique Applications	No of Shares Blocked	No of Unique successful Applications	No of Shares successfully Blocked	No of Unique failed Applications, if any	No of Shares failed to get Blocked
BSE								
NSE								
Total								

** - Data to be obtained by merchant banker from registrar/exchange(s)

Annexure 'B'

S.No.	Data Point		Count	Date of Activity
<u>1.</u>	Total No of unique applications received	Total		
		Bank ASBA		
		Online		

		UPI		
<u>2.</u>	Total No of Allottees	Total		
		Bank ASBA		
		Online		
		UPI		
<u>3.</u>	Total No of Non-Allottees	Total		
		Bank ASBA		
		Online		
		UPI		
<u>4.</u>	Out of total UPI Allottees (Debit execution file), How many records were processed successfully?	Count : No of shares: Amount:		
<u>5.</u>	Out of total UPI Allottees (Debit execution file), How many records failed?	Count : No of shares: Amount:		
<u>6.</u>	Out of total UPI Non-Allottees (Unblocking file), How many records were successfully unblocked?			
<u>7.</u>	Out of total UPI Non-Allottees (Unblocking file), How many records failed in unblocking?			
<u>8.</u>	Whether offline revoke is taken up with issuer banks due to failure of online unlock system? If yes, Share a separate list of bank-wise count and application numbers.			

Status of SCSBs on UPI

3.20.12 Applications through UPI in IPOs can be made only through the SCSBs / mobile applications (apps) whose name appears on the SEBI website - www.sebi.gov.in at the following path:

Home » Intermediaries/Market Infrastructure Institutions » Recognised Intermediaries » Self Certified Syndicate Banks eligible as Issuer Banks for UPI

A list of SCSBs and mobile application, as on July 26, 2019, for applying in public issues using UPI mechanism is provided at Annexure 'A'. The said list shall be updated on SEBI website.

An investor shall ensure that when applying in IPO using UPI, the name of his Bank appears in the list of SCSBs displayed on the SEBI website which are live on UPI.

Further, he/she shall also ensure that the name of the app and the UPI handle being used for making the application is also appearing in the aforesaid list.

3.20.13 An application made using incorrect UPI handle or using a bank account of an SCSBs or bank which is not mentioned in the aforesaid list is liable to be rejected.

3.20.14 Investors whose bank is not live on UPI as on July 29, 2019, may use the other alternate channels available to them viz. submission of application form with SCSB or using the facility of linked online trading, demat and bank account (Channel I or II at Para 5.1 of Circular dated November 01, 2018).

3.20.15 Frequently asked questions (FAQs) regarding use of UPI with ASBA in public issue process can be accessed at the following path on the SEBI website - www.sebi.gov.in:

[Home](#) » [FAQs](#) » [FAQs on Primary Market Issuances](#) » Use of Unified Payments Interface (UPI) with ASBA in public issue process

3.20.16 All entities involved in the process are advised to take necessary steps to ensure compliance with these provisions.

Annexure-A
List of Self Certified Syndicate Banks on UPI 2.0*

Sr. No.	SCSBs live on UPI 2.0	Mobile Application to be used by investor	UPI Handles active
1.	Allahabad Bank	BHIM	@upi
2.	Andhra Bank	BHIM	@upi
3.	Axis Bank Ltd	BHIM BHIM AXIS Pay	@upi @axisbank
4.	Bandhan Bank	BHIM	@upi
5.	Bank of Baroda	BHIM	@upi
6.	Bank of India	BHIM	@upi
7.	Central Bank of India	BHIM	@upi
8.	Canara Bank	BHIM	@upi
9.	Citi Bank N.A	BHIM	@upi
10.	Citi Union Bank	BHIM	@upi
11.	Corporation Bank	BHIM	@upi
12.	DBS Bank India Limited	BHIM	@upi
13.	DCB Bank	BHIM	@upi
14.	Dhanlakshmi Bank Limited	BHIM	@upi
15.	GP Parsik Sahakari Bank Limited	BHIM	@upi
16.	HDFC Bank Ltd.	BHIM	@upi
		HDFC BANK MOBILE BANKING APP- ANDROID	@hdfcbank

		ONLY	
17.	HSBC Bank	BHIM	@upi
		HSBC SIMPLY PAY (ANDROID & iOS)	@hsbc
18.	ICICI Bank Ltd	BHIM	@upi
		ICICI BANK MOBILE BANKING APP (iMobile) - ANDROID ONLY	@icicibank
19.	IDBI Bank Ltd.	BHIM	@upi
20.	Indian Overseas Bank	BHIM	@upi
21.	IndusInd Bank	BHIM	@upi
22.	Janata Sahakari Bank Ltd.	BHIM	@upi
23.	Karnataka Bank Limited	BHIM	@upi
24.	Karur Vysya Bank Ltd.	BHIM	@upi
25.	Kotak Mahindra Bank Ltd.	BHIM	@upi
26.	Mehsana Urban Co-operative Bank Limited	BHIM	@upi
27.	Oriental Bank of Commerce	BHIM	@upi
28.	Punjab National Bank	BHIM	@upi
29.	Punjab & Sind Bank	BHIM	@upi
30.	RBL Bank Limited	BHIM	@upi
31.	Rajkot Nagarik Sahakari Bank Ltd	BHIM	@upi
32.	South Indian Bank	BHIM	@upi
33.	State Bank of India	BHIM	@upi
		SBI MOBILE BANKING APP- ANDROID ONLY	@sbi
34.	SVC Co-operative Bank Ltd.	BHIM	@upi
35.	Saraswat Co-operative Bank Limited	BHIM	@upi

36.	The Ahmedabad Mercantile Co-Op. Bank Ltd	BHIM	@upi
37.	The Catholic Syrian Bank Limited	BHIM	@upi
38.	The Federal Bank	BHIM	@upi
39.	The Lakshmi Vilas Bank Limited	BHIM	@upi
40.	The Surat People's Co-op Bank Ltd.	BHIM	@upi
41.	TJSB Sahakari Bank Ltd	BHIM	@upi
42.	UCO Bank	BHIM	@upi
43.	Union Bank of India	BHIM	@upi
44.	United Bank of India	BHIM	@upi
45.	YES Bank Ltd.	BHIM	@upi

*As on July 26, 2019

3.21 Standardization of timeline for listing of securities issued on a private placement basis under¹⁰⁷:

- i. SEBI (Issue and Listing of Debt Securities) Regulations, 2008 (SEBI ILDS),
- ii. SEBI (Issue and Listing of Non-Convertible Redeemable Preference Shares) Regulations, 2013 (SEBI NCRPS),
- iii. SEBI (Public Offer and Listing of Securitised Debt Instruments and Security Receipts) Regulations, 2008 (SEBI SDI) and
- iv. SEBI (Issue and Listing of Municipal Debt Securities) Regulations, 2015 (SEBI ILDM).

3.21.1 SEBI was receiving requests from various market participants for clarification on the time period within which securities issued on private placement basis under SEBI ILDS, SEBI NCPRS, SEBI SDI and

¹⁰⁷Reference Circular No. SEBI/HO/DDHS/CIR/P/2020/198 dated October 05, 2020

SEBI ILDM Regulations need to be listed after completion of allotment.

- 3.21.2 After discussions and taking feedback from market participants, the following timelines is stipulated:

Serial number	Details of Activities	Due date
1.	Closure of issue	T day
2.	Receipt of funds	To be completed by T+2 trading day
3.	Allotment of securities	
4.	Issuer to make listing application to Stock Exchange(s)	To be completed by T+4 Trading day
5.	Listing permission from Stock Exchange(s)	

- 3.21.3 Depositories shall activate the ISINs of debt securities issued on private placement basis only after the Stock Exchange(s) have accorded approval for listing of such securities.

Further, in order to facilitate re-issuances of new debt securities in an existing ISIN, Depositories are advised to allot such new debt securities under a new temporary ISIN which shall be kept frozen. Upon receipt of listing approval from Stock Exchange(s) for such new debt securities, the debt securities credited in the new temporary ISIN shall be debited and the same shall be credited in the pre-existing ISIN of the existing debt securities, before they become available for trading.

Stock Exchange(s) are advised to inform the listing approval details to the Depositories whenever listing permission is given to debt securities issued on private placement basis.

- 3.21.4 In case of delay in listing of securities issued on privately placement basis beyond the timelines specified in para 3.21.2 above, the issuer shall;
- i. pay penal interest of 1% p.a. over the coupon rate for the period of delay to the investor (i.e. from date of allotment to the date of listing)
 - ii. be permitted to utilise the issue proceeds of its subsequent two privately placed issuances of securities only after receiving final listing approval from Stock Exchanges.

SECTION-4: Depositories Related

4.1 *Online Registration Mechanism and Filing system for Depositories*¹⁰⁸

- i. In order to ease the process of application for recognition / renewal, reporting and other filings in terms of Securities and Exchange Board of India (Depositories and Participants) Regulations, 1996 and other circulars issued from time to time, SEBI has introduced a digital platform for online filings related to Depositories.
- ii. All applicants desirous of seeking registration as a Depository in terms of Regulation 3 of the Securities and Exchange Board of India (Depositories and Participants) Regulations, 1996, shall now submit their applications online, through SEBI Intermediary Portal at <https://siportal.sebi.gov.in>.
- iii. The applicants would be required to upload scanned copy of relevant documents such as any declaration or undertaking or notarised copy of documents as may be prescribed in Securities and Exchange Board of India (Depositories and Participants) Regulations 1996, and keep hard copy of the same to be furnished to SEBI whenever required.
- iv. Further, all other filings including Annual Financial Statements and Returns, Monthly Development Report, Rules, Bye-laws, etc., shall also be submitted online.
- v. The aforesaid online registration and filing system for Depositories is operational. Recognised Depositories are advised to note the same for immediate compliance.
- vi. Link for SEBI Intermediary Portal is also available on SEBI website -www.sebi.gov.in. In case of any queries and clarifications, users may refer to the manual provided in the portal or contact the SEBI Portal helpline on 022-26449364 or may write at portalhelp@sebi.gov.in.

4.2 *Activity schedule for depositories for T+2 rolling Settlement*¹⁰⁹

¹⁰⁸ Reference Circular SEBI/HO/MRD/DSA/CIR/P/2018/1 dated January 29, 2018

¹⁰⁹ Reference Circular DCC/FITTC/Cir-19/2003 dated March 4, 2003 and Circular MRD/DoP/SE/Dep/Cir-18/2005 dated September 2, 2005

- i. The activity schedule for T+2 Rolling Settlement is as under:

Sr. No.	Day	Time	Description of activity
1	T		Trade Day
2	T+1	By 1.00 pm	Completion of custodial confirmation of trades to CC/CH. (There is no separate extended time limit for late confirmations).
		By 2.30 pm	Completion of process and download obligation files to brokers/ custodians by the CC/CH.
3	T+2	By 11.00 am	Pay-in of securities and funds.
		By 1.30 pm	Pay-out of securities and funds.

- ii. All Depositories shall adhere to the aforementioned activity schedule to implement T+2 rolling settlement. DPs shall adhere to the designated activities within the prescribed time limits as under:
- a. DPs shall accept instructions for pay-in of securities from clients in the physical form atleast upto 4 p.m. and in electronic form atleast upto 6 p.m. on T+1.
 - b. DPs shall complete execution of pay-in instructions latest by 10:30 a.m. on T+2.
 - c. Depositories shall download the processed pay-in files to the Exchange / Clearing House / Clearing Corporation latest by 11:00 a.m. on T+2.
 - d. Pay-out of securities by the Exchange / Clearing House / Clearing Corporation to the Depositories shall be executed by 1:30 p.m. on T+2.
 - e. Pay-out of securities shall be completed by the Depositories by 2:00 p.m. on T+2.

- iii. All instructions received by the DPs shall have an execution date, which may be either a current date or a future date. Instructions shall be valid till the pay-in deadline or till 'end of day' (EOD) of the execution date, whichever is earlier. DPs shall ensure that the validity period of instructions is brought to the notice of the client while accepting the instructions. In case the client account does not have sufficient balance before pay-in deadline or till EOD, such instructions shall fail.

4.3 Settlement of transactions in case of holidays¹¹⁰

Due to lack of uniformity of holidays and force majeure conditions which necessitate sudden closure of one or more Stock Exchanges and banks in a particular state, result in situations where multiple settlements have to be completed by the Stock Exchanges on the working day immediately following the day(s) of the closure of the banks. Accordingly, the Stock Exchanges/Depositories are advised to follow the guidelines and adhere to the time line.

- i. The Stock Exchanges shall clear and settle the trades on a sequential basis i.e., the pay-in and the pay-out of the first settlement shall be completed before the commencement of the pay-in and pay-out of the subsequent settlement/s.
- ii. The cash/securities pay out from the first settlement shall be made available to the member for meeting his pay-in obligations for the subsequent settlement/s.
- iii. Further, in-order to meet his pay-in obligations for the subsequent settlement, the member may need to move securities from one depository to another. The Depositories shall, therefore, facilitate the inter-depository transfers within one hour and before pay-in for the subsequent settlement begins.
- iv. The Stock Exchanges/Depositories shall follow a strict time schedule to ensure that the settlements are completed on the same day.

¹¹⁰ Reference Circular SEBI/MRD/Policy/AT/Cir- 19/2004 dated April 21, 2004

- v. The Clearing Corporation/Clearing House of the Stock Exchanges shall execute Auto DO facility for all the settlements together, so as to make the funds and the securities available with the member on the same day for all the settlements, thereby enabling the availability of the funds/securities at the client level by the end of the same day.

4.4 *Deadline time for accepting non pay-in related instructions¹¹¹*

- i. The depositories are advised that any overrun of the time specified for 'spot delivery contract' in the SCRA would result in the contract becoming illegal under section 16 of the SCRA (unless it is put through the stock exchange). The DP-BO agreement cannot add anything to or subtract anything from this position. However, it should be the responsibility of the DP to ensure that the client's contract is not rendered illegal on account of delayed execution of the delivery instruction.
- ii. Keeping the hardships to change all the existing DP-BO agreements to enforce the above into consideration, it is advised that suitable bye laws can be made under section 26(2)(e) and (d) of Depositories Act, 1996 for imposing such obligation on the DPs. Therefore, it is advised to amend/insert bye laws which should expressly provide that the DPs shall execute the non pay-in related instructions on the same day or on the next day of the instruction. Further, pending such amendment, suitable instructions may be issued to DPs to adhere to such time limit.
- iii. The above clause may be suitably incorporated in the DP-BO agreement while opening new accounts.

4.5 *Approval of amendments to Bye Laws / Rules of Stock Exchanges and Depositories¹¹²*

¹¹¹ Reference: MRD/VSS/ARR/ 12255/2004 dated June 10, 2004

¹¹² Reference Circular LGL/Cir-2/2003 dated February 19, 2003

- i. Depositories and exchanges shall submit the following information while seeking SEBI approval for amendment to Bye Laws/ Rules/ Regulations and amendments thereto:
 - a. The objective/purpose of amendments.
 - b. Whether the amendment is consequential to any directive/circulars/guidelines from SEBI/ Government and the details thereof.
 - c. Whether such amendments necessitate any consequential amendments to any other Bye Laws/ Rules/ Regulations.
 - d. The proceedings of the Governing Board or Governing Council, as the case may be, wherein these proposed amendments were approved by the Exchanges/ Depositories.
 - e. If documents other than Bye Laws/ Rules/ Regulations are sent for approval, the justification and need for forwarding the same to SEBI, indicating whether it forms a part of any Bye Law/ Rule/ Regulation.
- ii. Further, all Exchanges shall ensure that requests for dispensation of the requirement of pre-publication shall be accompanied with proper justification and indicate how the public interest or interest of trade shall be served by such dispensation of pre-publication.

4.6 *Preservation of Records*¹¹³

- i. Depositories and Depository Participants are required to preserve the records and documents for a minimum period of 8 years.
- ii. Depositories and DPs shall preserve respective original forms of documents either in physical form or an electronic record, copies of which have been taken by CBI, Police or any other enforcement agency during the course of their investigation till the trial is completed.

¹¹³Reference Circular: MRD/DoP/DEP/Cir-20/2009 dated December 9, 2009 and SEBI/HO/MRD2/DDAP/CIR/P/2020/153 dated August 18, 2020

4.7 *Facilitating transaction in Mutual Fund schemes through the Stock Exchange Infrastructure¹¹⁴*

- 4.7.1 Mutual fund distributors are permitted to use recognised stock exchanges' infrastructure to purchase and redeem mutual fund units directly from Mutual Fund / Asset Management Companies.
- 4.7.2 Further, SEBI Registered Investment Advisors (RIAs) are allowed to use infrastructure of the recognised stock exchanges to purchase and redeem mutual fund units directly from Mutual Fund/ Asset Management Companies on behalf of their clients, including direct plans.
- 4.7.3 To further increase the reach of this platform, investors are allowed to directly access infrastructure of the recognised stock exchanges to purchase and redeem mutual fund units directly from Mutual Fund/ Asset Management Companies.

4.8 *Pledge of Shares through depository system¹¹⁵*

- i. Section 12 of the Depositories Act and Regulation 79 of the SEBI (Depositories and Participants) Regulations, 2018 along with the relevant Bye Laws of the Depositories clearly enumerate the manner of creating pledge. It is felt that there is a need to communicate to the BOs that any procedure followed other than as specified under the aforesaid provisions of law shall not be treated as pledge.
- ii. In order to clarify the same, the depositories are advised to issue a communiqué to the DPs advising them to inform BOs about the procedure for pledging of shares held in demat form as enumerated in the relevant sections of the Depositories Act and SEBI (Depositories and Participants) Regulations, 2018. Depositories may also advise DPs that an off-market transfer of shares leads to change in ownership and cannot be treated as pledge. Further, this issue may also be taken up in the investor awareness

¹¹⁴Reference Circulars: Circular no. CIR/MRD/DSA/32/2013 dated October 04, 2013, CIR/MRD/DSA/33/2014 dated December 09, 2014, Circular no. SEBI/HO/MRD/DSA/CIR/P/2016/113 dated October 19, 2016 and SEBI/HO/MRD1/DSAP/CIR/P/2020/29 dated February 26, 2020

¹¹⁵ Reference: MRD/DoP/MAS - OW/16723/2010 dated August 17, 2010

programs wherein the manner of creation of pledge can be effectively communicated to the BOs directly.

4.9 Margin obligations to be given by way of Pledge/ Re-pledge in the Depository System¹¹⁶

- 4.9.1 There are four circulars pertaining to aforesaid subject viz. [SEBI/HO/MIRSD/DOP/CIR/P/2020/28 dated February 25, 2020](#), [SEBI/HO/MIRSD/DOP/CIR/P/2020/88 dated May 25, 2020](#), [SEBI/HO/MIRSD/DOP/CIR/P/2020/90 dated May 29, 2020](#) and [SEBI/HO/MIRSD/DOP/CIR/P/2020/143 dated July 29, 2020](#).
- 4.9.2 Based on consultations with Stock Exchanges, Clearing Corporation, Depositories including industry representatives of Trading Members (the “TM”) / Clearing Members (the “CM”) / Depository Participants (the “DP”) and discussions in Secondary Market Advisory Committee meeting, a framework was devised that mitigates the risk of misappropriation or misuse of client’s securities available with the TM / CM / DP. The misappropriation or misuse would include use of one client’s securities to meet the exposure, margin or settlement obligations of another client or of the TM / CM.
- 4.9.3 TM / CM shall, inter alia, accept collateral from clients in the form of securities, only by way of ‘margin pledge’, created in the Depository system in accordance with Section 12 of the Depositories Act, 1996 read with Regulation 79 of the SEBI (Depositories and Participants) Regulations, 2018 and the relevant Bye Laws of the Depositories.
- 4.9.4 Section 12 of the Depositories Act, 1996 read with Regulation 79 of the SEBI (Depositories and Participants) Regulations, 2018 and the relevant Bye Laws of the Depositories clearly enumerate the manner of

¹¹⁶ Reference: SEBI/HO/MIRSD/DOP/CIR/P/2020/28 dated February 25, 2020, SEBI/HO/MIRSD/DOP/CIR/P/2020/88 dated May 25, 2020, SEBI/HO/MIRSD/DOP/CIR/P/2020/90 dated May 29, 2020 and SEBI/HO/MIRSD/DOP/CIR/P/2020/143 dated July 29, 2020

creating pledge of the dematerialised securities. Any procedure followed other than as specified under the aforesaid provisions of law for creating pledge of the dematerialised securities is prohibited. An off-market transfer of securities leads to change in ownership and shall not be treated as pledge.

- 4.9.5 Transfer of securities to the demat account of the TM / CM for margin purposes (*i.e. title transfer collateral arrangements*) shall be prohibited. In case, a client has given a power of attorney in favour of a TM / CM, such holding of power of attorney shall not be considered as equivalent to the collection of margin by the TM / CM in respect of securities held in the demat account of the client. This provision shall be applicable from August 01, 2020.
- 4.9.6 Depositories shall provide a separate pledge type viz. 'margin pledge', for pledging client's securities as margin to the TM / CM. The TM / CM shall open a separate demat account for accepting such margin pledge, which shall be tagged as 'Client Securities Margin Pledge Account'.
- 4.9.7 For the purpose of providing collateral in form of securities as margin, a client shall pledge securities with TM, and TM shall re-pledge the same with CM, and CM in turn shall re-pledge the same to Clearing Corporation (CC). The complete trail of such re-pledge shall be reflected in the de-mat account of the pledgor.
- 4.9.8 The TM shall re-pledge securities to the CM's 'Client Securities Margin Pledge Account' only from the TM's 'Client Securities Margin Pledge Account'. The CM shall create a re-pledge of securities on the approved list to CC only out of 'Client Securities Margin Pledge Account'.

- 4.9.9 In this context, re-pledge would mean endorsement of pledge by TM / CM in favour of CM/CC, as per procedure laid down by the Depositories.
- 4.9.10 The TM and CM shall ensure that the client's securities re-pledged to the CC shall be available to give exposure limit to that client only. Dispute, if any, between the client, TM / CM with respect to pledge, re-pledge, invocation and release of pledge shall be settled inter-se amongst client and TM / CM through arbitration as per the bye-laws of the Depository. CC and Depositories shall not be held liable for the same.
- 4.9.11 Securities that are not on the approved list of a CC may be pledged in favour of the TM / CM. Each TM / CM may have their own list of acceptable securities that may be accepted as collateral from client.
- 4.9.12 Funded stocks held by the TM / CM under the margin trading facility shall be held by the TM / CM only by way of pledge. For this purpose, the TM / CM shall be required to open a separate demat account tagged 'Client Securities under Margin Funding Account' in which only funded stocks in respect of margin funding shall be kept/ transferred, and no other transactions shall be permitted. The securities lying in 'Client Securities under Margin Funding Account' shall not be available for pledge with any other Bank/ NBFC.
- 4.9.13 The TM / CM shall be required to close all existing demat accounts tagged as 'Client Margin/ Collateral' by August 31, 2020. The TM / CM shall be required to transfer all client's securities lying in such accounts to the respective clients' demat accounts. Thereafter, TM / CM are prohibited from holding any client securities in any beneficial owner accounts of TM/CM, other than specifically tagged accounts as indicated above, and in pool account(s), unpaid securities account, as provided in SEBI Circular CIR/HO/MIRSD/DOP/CIR/P/2019/75 dated June 20, 2019.

- 4.9.14 Clients having arrangements with custodians registered with SEBI for clearing and settlement of trades shall continue to operate as per the extant guidelines.
- 4.9.15 The operational mechanism for margin pledge is provided in **Annexure A**. The framework for utilisation of pledged clients' securities for exposure and margin is provided in **Annexure B**.
- 4.9.16 This above norms is applicable for all securities in dematerialised form and which are given as collateral / margin by the client to TM / CM / CC by way of pledge and repledge.
- 4.9.17 The above provisions shall be implemented with effect from August 01, 2020. Trading member (TM) / Clearing member (CM) shall endeavor to align their systems and accept client collateral and margin funded stocks by way of creation of pledge / re-pledge in the Depository system.

Annexure A
Operational mechanism for margin pledge

INITIATION OF MARGIN PLEDGE

1. For the purpose of providing collateral in form of dematerialised securities as margin, a client shall initiate the margin pledge only in favour of the TM / CM's separate client securities margin account tagged as 'Client Securities Margin Pledge Account' through physical instruction or electronic instruction mechanism provided by the Depositories. Such instructions shall have details of client UCC, TM, CM and Default Segment.

2. In cases where a client has given a Power of Attorney (the “POA”) to the TM / CM, the TM / CM may be allowed to execute the margin pledge on behalf of such client to the demat account of the TM / CM tagged as ‘Client Securities Margin Pledge Account’.
3. The ‘pledge request form’ shall have a clause regarding express consent by the client for re-pledge of the securities by the TM to CM and further by the CM to CC.
4. On receipt of the margin pledge instruction either from the client or by TM / CM as per the POA, DP of a client shall initiate a margin pledge in the client’s account and the status of instruction will remain pending till confirmation is received from client / pledgor. The client will submit acceptance by way of One Time Password (the “OTP”) confirmation on mobile number / registered e-mail id of the client or other verifiable mechanism. Such confirmation shall be required only once from the client / pledgor at the time of initial creation of pledge in favour of TM / CM and subsequent repledging by TM / CM shall not require any further confirmation from the client / pledgor. The Depositories shall develop a verifiable mechanism for confirmation of the pledge by the client.
5. In client account, margin pledge or re-pledge shall be reflected against each security, if it is pledged / re-pledged and in whose favour i.e. TM / CM / CC.
6. The TM can re-pledge only in favour of CM’s demat account tagged as ‘Client Securities Margin Pledge Account’. The CM shall create a re-pledge of securities on the approved list only to the CC out of ‘Client Securities Margin Pledge Account’. While re-pledging the securities to the CC, CM/TM shall fully disclose the details of the client wise pledge to the CC/CM. CM would need to have visibility of client level position and client collateral so that CM shall allow exposure and / or margin credit in respect of such securities to that client to whom such securities belong.

RELEASE OF MARGIN PLEDGE

7. In case of a client creating pledge of the securities in favour of the TM / CM against margin, the TM / CM may release the 'margin pledge' after their internal exposure and risk management checks. The request for release of pledge can be made by the client to its DP or to the TM / CM, who shall release the pledge in the Depository system.
8. For release of client securities given to TM/CM as margin pledge and which are re-pledged in favour of the CC, the CM shall make a request to the CC. The client through TM, or the TM on his own, may request the CM to make an application to the CC for the release of margin pledge. CC shall do margin utilisation check at the CM level before releasing the re-pledge of securities to the CM. The CC will release the re-pledged client securities to CM after blocking other available free collateral of CM. The CM /TM in turn after doing their risk management shall release the securities to TM / client, as the case may be.

INVOCATION OF MARGIN PLEDGE

9. In case of default by a client of TM where the clients securities are re-pledged with the CM/ CC, the invocation request shall be made by the TM to CM and CM in turn will make request to CC as per the procedure laid down by the Depositories under their bye-laws.
10. In case of default by a client of TM who has pledged securities with TM, The TM shall invoke the pledge.
11. In case of default by a client of TM whose securities are re-pledged by TM with CM, the invocation request shall be made by TM to the CM. The CM, after doing its internal exposure and risk management, shall release the re-pledged securities to the 'Client Securities Margin Pledge Account' of the TM. The TM in turn will invoke the pledge of client's securities.

12. In the event of default by a client of a TM, whose securities are re-pledged by TM with CM and CM in turn has re-pledged with CC, the TM shall make a request for invocation of pledge with CM and CM in turn shall file a request with CC to release the re-pledged securities for invocation. The CC shall block equivalent available free collateral provided by CM and shall release the re-pledged securities of that defaulting client of TM to CM in "Client Securities Margin Pledge Account" of CM. The CM shall do his own risk assessment of TM and would release re-pledged securities of the defaulting client of TM in "Client Securities Margin Pledge Account" of TM and TM shall invoke the pledge in Demat account of the client.
13. In case of default by a client/ TM of CM whose securities are re-pledged with CC, CM shall file a request with CC for invocation of the pledged/ re-pledged securities of that client/TM. CC shall block the equivalent available free collateral provided by CM and shall release the re-pledged securities of that defaulting client/TM in "Client Securities Margin Pledge Account" of CM and the CM shall invoke the pledge in Demat account of the client/ TM.
14. In case of default by TM or client of TM, CM shall be entitled to invoke pledged/ re-pledged securities of the TM. CM shall also be entitled to invoke directly the repledged securities of client of TM having open position with CM to close out such positions.
15. In case of default by the CM, CC shall invoke securities pledged by the CM. After exhausting the CM own collateral, CC may also invoke re-pledge securities of that client who has open position and their re-pledged securities are blocked by CC to close out their open positions. The re-pledge securities of other clients who did not have any open position with CC, their securities shall not be available to CC for invocation to meet settlement default of the CM.

Annexure B

Framework for utilisation of client's pledged securities for exposure and Margin

1. At present, the margin requirement is computed in real time at client level by the CC and is aggregated at the level of CMs to arrive at the total margin requirement. The CC maintains and monitor the collateral at the level of CM. The CM is required to provide the collateral in various acceptable forms such as Cash, Bank Guarantee, Govt. Securities, pledge of acceptable shares, etc.
2. The day to day real time risk management with respect to client / TM exposure, and the margin requirement shall continue to be the responsibility of the CM, and CC shall not monitor the client level exposure against the available client level collateral in real time.
3. In order to provide exposure to CM and/or to the clients / TM of a CM, CC shall aggregate margin requirement at CM level that shall be compared against the available collateral in real time as aggregate of;
 - a. cash and cash equivalent deposited by CM,
 - b. own securities pledged by CM with CC,
 - c. CC requires minimum 50% of the collateral to be deposited in cash and cash equivalent, if the total securities pledged by CM with CC exceed the total cash and cash equivalent, the value of securities will be restricted to amount of cash and cash equivalent.
 - d. The TM's proprietary margin requirement will be treated as a client of CM and aggregated along with other clients.
4. CM shall be allowed to re-pledge acceptable/approved client securities with the CC by furnishing the UCC wise client details. CC shall not allow any exposure to the CM on re-pledged securities of the client / TM. In case of a trade by a client / TM whose securities are re-pledged with CC,

the CC shall first block the available collateral provided by CM as mentioned in point 3 above. However, at periodical interval (latest by end of day), CC shall release the blocked securities collateral of CM to the extent of re-pledged securities collateral of that client / TM available with the CC.

5. In the event of default by a client of TM, the TM shall make good the default to CM. In the event of default by a client or TM on its proprietary position, the CM shall make good the default to CC. However, in the event of default by client/s leading to default of TM and also the CM, the following process shall be applied by TM/CM/CC for invocation of pledged and re-pledged securities of client/TM/CM:
 - a. In case of default by a client of TM/CM or default of TM leading to the default of CM, CC shall:
 - i. encash the available collateral including cash, cash equivalent collateral, CM's own pledged securities.
 - ii. After encashing the available collateral of CM, also be entitled to directly invoke the re-pledged securities of client / TM who has any open position so as to close out the open positions of that client.
 - iii. not be entitled to invoke re-pledged securities of those clients who did not have any open position to meet settlement obligation of the defaulting CM
 - b. In case of default by a client of TM or default of TM, CM Shall:
 - i. be entitled to liquidate available cash, cash equivalent collateral and TM's own pledged /or re-pledged securities with CM/ CC to meet settlement/margin obligations of defaulting TM or client(s) of that TM.
 - ii. After encashing the available collateral of TM, be entitled to directly invoke re-pledged securities of the client of defaulting TM who has open position through CM so as to close out his position.
 - iii. not be entitled to invoke re-pledged securities of those clients of defaulting TM who did not have any open position,

- iv. ensure that the client securities of TM/ CM re-pledged with the CC are not utilized for meeting the margin requirement/ settlement obligation of a TM's/CM's own proprietary position or margin requirement/ settlement obligation of any other client of TM / CM.

4.10 *Foreign investments in infrastructure companies in securities markets*¹¹⁷

- i. Pursuant to Government of India Policy, foreign investments in infrastructure companies in the securities markets, namely Stock Exchanges, Depositories and Clearing Corporations shall be as under:
 - a. Foreign investment shall be allowed in such companies up to 49% with a separate Foreign Direct Investment (FDI) cap of 26% and Foreign Institutional Investment (FII) cap of 23%;
 - b. FDI shall be allowed with specific prior approval of FIPB;
 - c. FII shall be allowed only through purchases in the secondary market;
 - d. FII shall not seek and will not get representation on the Board of Directors;
 - e. No foreign investor, including persons acting in concert, will hold more than 5% of the equity in these companies.
- ii. The aforesaid limits for foreign investment in respect of recognised Stock Exchanges shall be subject to 5% shareholding limit as prescribed under the Securities Contracts (Regulation) (Manner of Increasing and Maintaining Public Shareholding in Recognised Stock Exchanges) Regulations, 2006.

4.11 *Designated e-mail ID for regulatory communication with SEBI*¹¹⁸

Depositories shall create a designated e-mail id for regulatory communication and inform it to SEBI. This e-mail id shall be exclusive and shall not be person-centric.

¹¹⁷ Reference Circular MRD/DSA/SE/Dep/Cust/Cir-23/06 dated December 22, 2006

¹¹⁸ Reference Circular MIRSD/DPS- III/Cir-23/08 dated July 25, 2008

4.12 Designated e-mail ID for redressal of investor complaints¹¹⁹

- i. Depositories and registered DPs shall designate an exclusive e-mail ID for the grievance redressal division/compliance officer exclusively for registering investor complaints.
- ii. The designated email ID and other relevant details shall be prominently displayed on the websites and in the various materials/pamphlets/advertisement campaigns initiated by the Depositories and DPs for creating investor awareness.

4.13 Redressal of complaints against Stock Exchanges (SEs) and Depositories through SEBI Complaints Redress System (SCORES).¹²⁰

- i. The complaints received by SEBI against SEs and Depositories shall be electronically sent through SCORES. Depositories are advised to view the pending complaints at <http://scores.gov.in/admin> and submit the Action Taken Report (ATR) along with supporting documents electronically in SCORES. Updation of action taken shall not be possible with physical ATRs. Hence, submission of physical ATR shall not be accepted for complaints lodged in SCORES.
- ii. The SEs and Depositories shall do the following:
 - a. indicate a contact person in case of SCORES, who is an employee heading the complaint services division/cell/department. Contact detail (i.e. phone no., email id, postal address) of the said contact person be made widely available for e.g. on the websites of Depositories.

¹¹⁹ Reference Circular MRD/DoP/Dep/SE/Cir-22/06 dated December 18, 2006

¹²⁰ Reference Circular CIR/MRD/ICC/16/2012 dated June 15, 2012

- b. address/redress the complaints within a period of 15 days upon receipt of complaint through SCORES¹²¹. In case additional information is required from the complainant, the same shall be sought within 7 days from the receipt of the complaint through SCORES. In such case, the period of 15 days will be counted upon the receipt of additional information.
- c. maintain a monthly record of the complaints which are not addressed/redressed within 15 days from the date of receipt of the complaint/information, alongwith the reason for such pendency.
- d. Upload/update the ATR on the SCORES. Failure to do so shall be considered as non-redressal of the complaint and the complaint shall be shown as pending.

4.14 Limitation period for filing an arbitration reference¹²²

- i. It is decided that the limitation period for filing an arbitration reference shall be governed by the law of limitation, i.e., The Limitation Act, 1963. The modified limitation period shall also be applicable to cover inter alia the following cases:
 - a. where the limitation period (in terms of Limitation Act 1963) have not yet elapsed and the parties have not filed for arbitration with the depository,
- OR
- b. where the arbitration application was filed but was rejected solely on the ground of delay in filing within the earlier limitation period; and the limitation period (in terms of Limitation Act 1963) have not yet elapsed.

¹²¹ Reference Circular SEBI/HO/MIRSD/MIRSD6/CIR/P/2017/20 dated March 10, 2017 –replaced sentence from “within 7 days of receipt on SCORES” to “within 7 days from the receipt of the complaint through SCROES”

¹²² Reference Circular CIR/MRD/DP/4/2011 dated April 7, 2011

4.15 Disclosure of investor complaints and arbitration details on Depository website¹²³

Depositories shall disclose the details of complaints lodged by Beneficiary Owners (BO's)/ investors against Depository Participants (DPs) in their website. The aforesaid disclosure shall also include details pertaining to arbitration and penal action against the DPs.

The format for the reports for the aforesaid disclosure consists of the following reports:

- i. Report 1A: Complaints received against DPs during 2009-10
- ii. Report 1B: Redressal of Complaints received against DPS during 2008-09
- iii. Report 1C: Redressal of Complaints received against DPs during 2009-10
- iv. Report 2A: Details of Arbitration Proceedings (where Investor is a party) during 2008-09:
- v. Report 2B: Details of Arbitration Proceedings (where Investor is a party) during 2009-10
- vi. Report 3A: Penal Actions against DPs during 2008-09
- vii. Report 3B: Penal Actions against DPs during 2009-10
- viii. Report 4A: Redressal of Complaints lodged by investors against Listed Companies during 2008 -09
- ix. Report 4B: Redressal of Complaints lodged by investors against Listed Companies during 2009 -10

¹²³ Reference Circular SEBI/MRD/ OIAE/ Dep/ Cir- 4/2010 dated January 29, 2010



भारतीय प्रतिभूति और विनियोग बोर्ड Securities and Exchange Board of India

Report 1A: Complaints received against Depository Participants (DPs) # during 2009-10: Updated on mmm dd yyyy (to be updated weekly) (In excel sheet)



भारतीय प्रतिभूति और विनियम बोर्ड
Securities and Exchange Board of India

N											

including against its authorized persons, employees, etc.

Status date is the date of resolution/reference to arbitration/finding it non-actionable. If under process, it is the date of
updation of this sheet. */** As per Table 1



भारतीय प्रतिभूति और विनियोग बोर्ड Securities and Exchange Board of India

Report 1B: Redressal of Complaints received against Depository Participants (DPs) during 2008-09: Updated on mmm dd yyyy (to be updated every quarter) (In excel sheet)



भारतीय प्रतिभूति और विनियम बोर्ड
Securities and Exchange Board of India

N													
Total													

*including against its authorized persons, employees, etc.

**Non actionable means the complaint that are incomplete / outside the scope of Depository
(Arrange the DPs in descending number of complaints filed against them during the period)



भारतीय प्रतिभूति और विनिमय बोर्ड
Securities and Exchange Board of India

**Report 1C: Redressal of Complaints received against Depository Participants (DPs) during 2009-10: Updated on mmm dd yyyy
(to be updated every quarter) (In excel sheet)**

Sl. No . .	Name of the DP	Status of DP (active/in active/ in process of termination /withdr aw al)	No. of BOs account s at the beginni ng of the year	No. of Compla ints receive d against the DP *	Of the Complaints received during 2008-09							
					No. of Complaints							
					Resolved through the Depositor y	Non action able**	Arbitr ation Advis ed	Pending for redressal with Depositor y	No. of Arbitrat ion filed by BOs	Decide d by the Arbitr ators	Decided by Arbitrat ors in favour of the BOs	Pending for Redressal with Arbitrator s
1												
2												
3												
N												



*including against authorized persons, employees, etc.

**Non actionable means the complaint that are incomplete / outside the scope of Depository
(Arrange the DPs in descending number of complaints filed against them during the period)



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

Report2A: Details of Arbitration Proceedings (where BO is a party) during 2008-09: Updated on mmm dd yyyy (to be updated every quarter) (In excel sheet)



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

(In case of panel of arbitrators, the cases / awards would appear against every member of the panel)

(Arrange the arbitrators in descending number of awards passed by them during the period)

Report2B: Details of Arbitration Proceedings (where BO is a party) during 2009-10: Updated on mmm dd yyyy (to be updated every quarter) (In excel sheet)



भारतीय प्रतिभूति और विनिमय बोर्ड
Securities and Exchange Board of India

N									
Total									

(In case of panel of arbitrators, the cases / awards would appear against every member of the panel)
(Arrange the arbitrators in descending number of awards passed by them during the period)



भारतीय प्रतिभूति और विनिमय बोर्ड
Securities and Exchange Board of India

Report 3A: Penal Actions against Depository Participants (DPs) during 2008-09: Updated on mmm dd yyyy (to be updated every quarter) (in excel sheet)

Sl. No.	Name of DP	Registration No.	No. of Complaints received	Action against DP, its authorized person and employees together				No. of Arbitration Awards issued against DP	
				No. of Penal Orders issued		Monetary Penalties levied (Rs. lakh)			
				For complaints	For others	For complaints	For others		
1									
2									
3									
N									



भारतीय प्रतिभूति और विनिमय बोर्ड
Securities and Exchange Board of India

Report 3B: Penal Actions against Depository Participants (DPs) during 2009-10: Updated on mmm dd yyyy (to be updated every quarter) (in excel sheet)

Sl. No.	Name of DP	Registration No.	No. of Complaints received	Action against DP, its authorized person and employees together			
				No. of Penal Orders issued		Monetary Penalties levied (Rs. lakh)	
				For complaints	For others	For complaints	For others
1							
2							
3							
N							



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

Report 4A: Redressal of Complaints lodged by investors against Listed Companies during 2008 -09: Updated on mmm dd yyyy (to be updated every quarter) (In excel format)



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

N					
Total					

*Non actionable means the complaint that are incomplete / outside the scope of Depository
(Arrange the companies in descending number of complaints filed against them during the period)

Report4B: Redressal of Complaints lodged by investors against Listed Companies during 2009 -10: Updated on mmm dd yyyy (to be updated every quarter) (In excel format)



भारतीय प्रतिभूति और विनिमय बोर्ड
Securities and Exchange Board of India

N					
Total					

*Non actionable means the complaints that are incomplete / outside the scope of Depository

(Arrange the companies in descending number of complaints filed against them during the period)

Table 1 A

Type	Details
Type I	Account Opening Related
I a	Denial in opening an account
I b	Account opened in another name than as requested
I c	Non receipt of Account Opening Kit
I d	Delay in activation/ opening of account
I e	Non Receipt of copy of DP Client Agreement/Schedule A of Charges
Type II	Demat/Remat Related
II a	Delay in Dematerialisation request processing
II b	Delay in Rematerialisation request processing
II c	Delay in/ Non-Receipt of Original certificate after demat rejection
II d	Non Acceptance of demat/remat request
Type III	Transaction Statement Related
III a	Delay in/ Non-Receipt of Statements from DP
III b	Discrepancy in Transaction statement
Type IV	Improper Service Related
IV a	Insistence on Power of Attorney in its favour
IV b	Deactivation/ Freezing/ Suspension related
IV c	Defreezing related
IV d	Transmission Related
IV e	Pledge Related
IV f	SMS Related
IV g	Non-updation of changes in account (address/ signatories/bank details/ PAN/ Nomination etc.)
Type V	Charges Related
V a	Wrong/ Excess Charges
V b	Charges paid but not credited
V c	Charges for Opening/closure of Account
Type VI	Delivery Instruction Related (DIS)
VI a	Non acceptance of DIS for transfer
VI b	Delay in/ non Execution of DIS

VI c	Delay in Issuance / Reissuance of DIS Booklet
Type VII	<i>Closure</i>
VII a	Non closure/ delay in closure of account
VII b	Closure of a/c without intimation by DP
Type VIII	<i>Manipulation/ Unauthorised Action</i>
VIII a	Unauthorised Transaction in account
VIII b	Manipulation
VIII c	Unauthorised changes in account (address/ signatories/bank details/PAN etc.)
Type IX	<i>Company/ RTA related</i>
IX a	Action – Cash
IX b	Action – Non-Cash
IX c	Initial Public Offer/ Follow-on Public Offer Related
Type X	<i>Others</i>

** Status	
Type	Description
I	Non actionable
I a	Complaint incomplete
I b	Outside the scope of Depository
I c	Pertains to non-responding company.
II	Resolved
III	Under Process
IV	Referred to Arbitration
V	Forwarded to Company/RTA for appropriate action.

4.16 Disclosure of regulatory orders and arbitration awards on Depository website¹²⁴

Depositories shall post all their regulatory orders and arbitration awards issued since April 1, 2007. Further, all regulatory orders and arbitration awards as and when issued shall be posted on their website immediately.

¹²⁴ Reference Circular SEBI/MRD/ DP/ 19/2010 dated June 10, 2010

4.17 *Guideline for websites of depositories*¹²⁵

- 4.17.1 This is with reference to the policy of website management of depositories.
- 4.17.2 As a good practice, the guidelines issued by National Informatics Centre for Indian Government website, which is available at <https://web.guidelines.gov.in/> may be adopted by depositories.
- 4.17.3 Depositories are advised to comply with the aforesaid guidelines for their website and mobile app.

4.18 *Arbitration / Appellate Arbitration fees on the remanded back matter for fresh arbitration proceedings*¹²⁶

1. It has been observed that in cases remanded by court of law, the stock exchanges/depositories are directed to undertake arbitration/appellate arbitration proceedings again. In some cases, the clients/investors are liable to pay the arbitration fees again, even when the same has been paid by them for the initial arbitration/appellate arbitration proceedings.
2. It has been decided that in such cases where the arbitration/appellate arbitration matter has been remanded by the Court to the stock exchanges/depositories, the arbitration/appellate arbitration fees/deposit payable by the client shall be borne by such stock exchange/depository.

4.19 *Establishment of connectivity by Clearing House / Clearing Corporation (CH/CC) with the Depository - Clarification*¹²⁷

- i. On examination of the provisions of Regulations 35(a) and 45 of the SEBI (Depositories and Participants) Regulations, 2018, it is advised that registration of a CC/CH of a stock exchange as a DP with SEBI is not mandatory and a pre-requisite for it to obtain connectivity with the depositories. However, if the CC/CH of a stock exchange desires to function as any other "Depository Participant", i.e. to open BO accounts for investors or clearing member account, registration as DP with SEBI is

¹²⁵ SEBI Letter no. MRD/DSA/OW/11447/2/2019 dated May 8, 2019

¹²⁶ Reference: SEBI letter SEBI/MRD/ICC/OW/P/2018/27066/1 dated September 25, 2018

¹²⁷ Reference: MRD/DoP/ Dep/82334 /2006 dated December 14, 2006

mandatory.

- ii. In view of the above, Depositories are advised to provide continuous electronic means of communication / connectivity to the CH/CC of the Exchanges without insisting for a mandatory registration as DP with SEBI with a condition that such entities would not be permitted to open BO accounts for investors or clearing member account.

4.20 Computing and monitoring of the Aggregate Value of Portfolio of Securities (AVPS) of the BOs held in dematerialised form by Stock Broker DPs

- i. For the purpose of computing the AVPS of the beneficial owners held in dematerialised form under Regulation 35(a)(viii) of SEBI (Depositories and Participant) Regulations, 2018, the securities held by bank and financial institutions as well as promoters holdings of a company held in dematerialised form, may be excluded¹²⁸.
- ii. In view of the potential risk to the system and also to maintain the integrity of the market, the depositories are advised to develop an appropriate systemic alert in the depository system, so as to enable the system to generate and convey automatic alerts to those SBDPs that reach a pre-determined level of exposure. These alerts would serve as forewarnings to the SBDPs to the fact that they are approaching their respective maximum exposure limits. [Note: For this purpose, the depositories may monitor the value of securities with its SBDPs on an "end of the day" basis.]¹²⁹

4.21 Rajiv Gandhi Equity Savings Scheme, 2012 (RGESS)¹³⁰

- i. Vide notification 51/2012 dated November 23, 2012, Department of Revenue, Ministry of Finance (MoF) has notified the Rajiv Gandhi Equity Savings Scheme (RGESS), 2012. The notification is available on the website of Income Tax Department under section "Notifications".
- ii. With regard to implementation of the MoF notification, the following is clarified:

¹²⁸ Reference: SMDRP/RKD /NSDL/2494 /98 dated November 18, 1998, SMDRP/CDSL / 18300 /2000 dated November 16, 2000

¹²⁹ Reference: MRD/DRK/SU/16034/2003 dated August 22, 2003

¹³⁰ Reference Circular CIR/MRD/DP/32/201 dated December 06, 2012

- a. For RGESS eligible close-ended Mutual Funds schemes, advice given by AMCs to the depository for extinguishment of units of close ended schemes upon maturity of the scheme shall be considered as settled through depository mechanism and therefore RGESS compliant.
 - b. AMCs shall disclose that the concerned RGESS eligible Exchange Traded Funds and Mutual Fund schemes is in compliance with the provisions of RGESS guidelines notified by Ministry of Finance vide notification no. 51/2012 F. No. 142/35/2012-TPL dated November 23, 2012, in Scheme Information Document (SID), in case of new fund offer, or by way of addendum, in case of existing RGESS eligible Exchange Traded Funds and Mutual Fund schemes.
 - c. Section 6(c) of the notification states that the eligible securities brought into the demat account will automatically be subject to lock-in during the first year, unless the new investor specifies otherwise and for such specifications, the new retail investors shall submit a declaration in Form B indicating that such securities are not to be included within the above limit of investment. It is clarified that such declaration shall be submitted by an investor to its Depository Participant within a period of one month from the date of transaction.
 - d. For transactions undertaken by investors through their RGESS designated demat account, Depositories may seek necessary transactional details from stock exchanges viz. Actual Trade value, Trading date, Settlement number, etc., for the purpose of enforcing lock-in and for generating reports mandated vide MoF notification on RGESS. On receipt of such request from depositories, stock exchanges shall provide the details to depositories on an immediate basis. It shall also be ensured that a uniform file structure is used by stock exchanges and depositories for such intimation of transaction details.
 - e. With regard to point 3(ix) (a) & (b) of RGESS notification, depositories may seek confirmation, as applicable, from stock exchanges.
 - f. With regard to the securities held in the RGESS designated account, treatment of the corporate actions shall be as given at Annexure A.
- iii. Stock exchanges shall furnish list of RGESS eligible stocks / ETFs / MF schemes on their website. Further, the list shall also be forwarded to the depositories at monthly intervals and whenever there is any change in the

said list. For this purpose, Mutual Funds / AMCs shall communicate list of RGESS eligible MF schemes / ETFs to the stock exchanges.

Annexure A

Treatment of corporate actions

- (i) Involuntary corporate actions: In case of corporate actions where investors has no choice in the matter, for example: demerger of companies, etc, the compliance status of RGESS demat account shall not change.
- (ii) Voluntary corporate actions: In case of corporate actions where investors has the option to exercise his choice and thereby result in debit of securities, for example: buy-back, etc., the same shall be considered as a sale transaction for the purpose of the scheme.

Consolidated list of 'corporate actions'

Sr. No.	Corporate Action	Classification (Involuntary or Voluntary)
1	Amalgamation	Involuntary
2	Scheme of Arrangement	Involuntary
3	Reduction of Capital	Involuntary
4	Bonus issue	Involuntary
5	Buy Back of Shares	Voluntary (Involuntary in case of court intervention)
6	Stock Split	Involuntary
7	Consolidation of Shares	Involuntary
8	Conversion of Partly Paid up	Involuntary
9	Dividend [Final/ Interim/ Special]	Involuntary
10	Exchange of Share Certificate [Name change]	Involuntary
11	Rights Issue	Voluntary
12	Conversion (compulsory)*	Involuntary
13	Conversion (optionally)*	Involuntary
14	Redemption	Involuntary (voluntary, if there is option to continue with revised terms)
15	Dividend on Mutual Fund	Involuntary
16	Redemption of Mutual Fund	Involuntary on maturity (voluntary, if there is option to

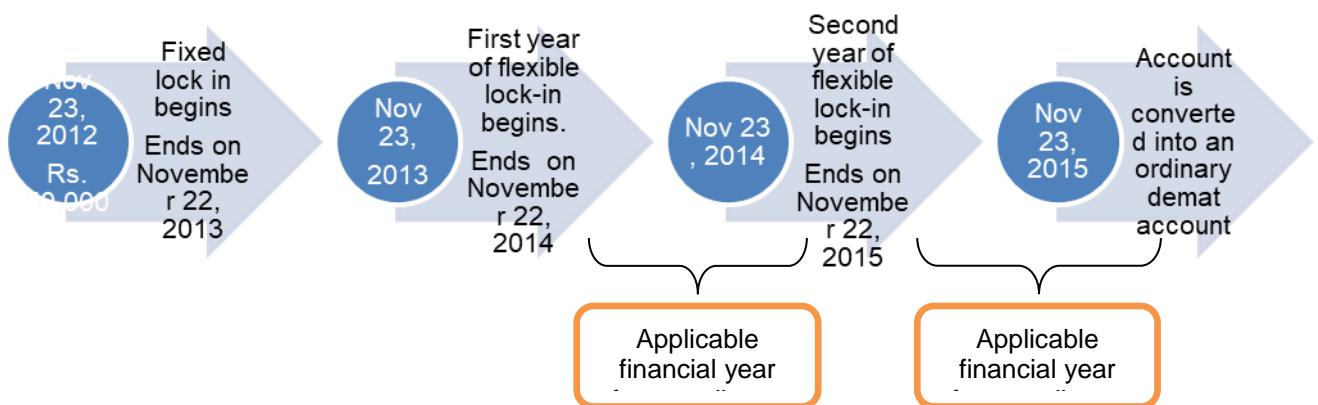
		shift between different scheme(s) or on account of exit option due to change in fundamental attributes of scheme)
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* Considering any conversion into equities (e.g.: Conversion of warrants into equities)

End of Annexure A

Annexure B – Illustration of lock-in period in RGESS

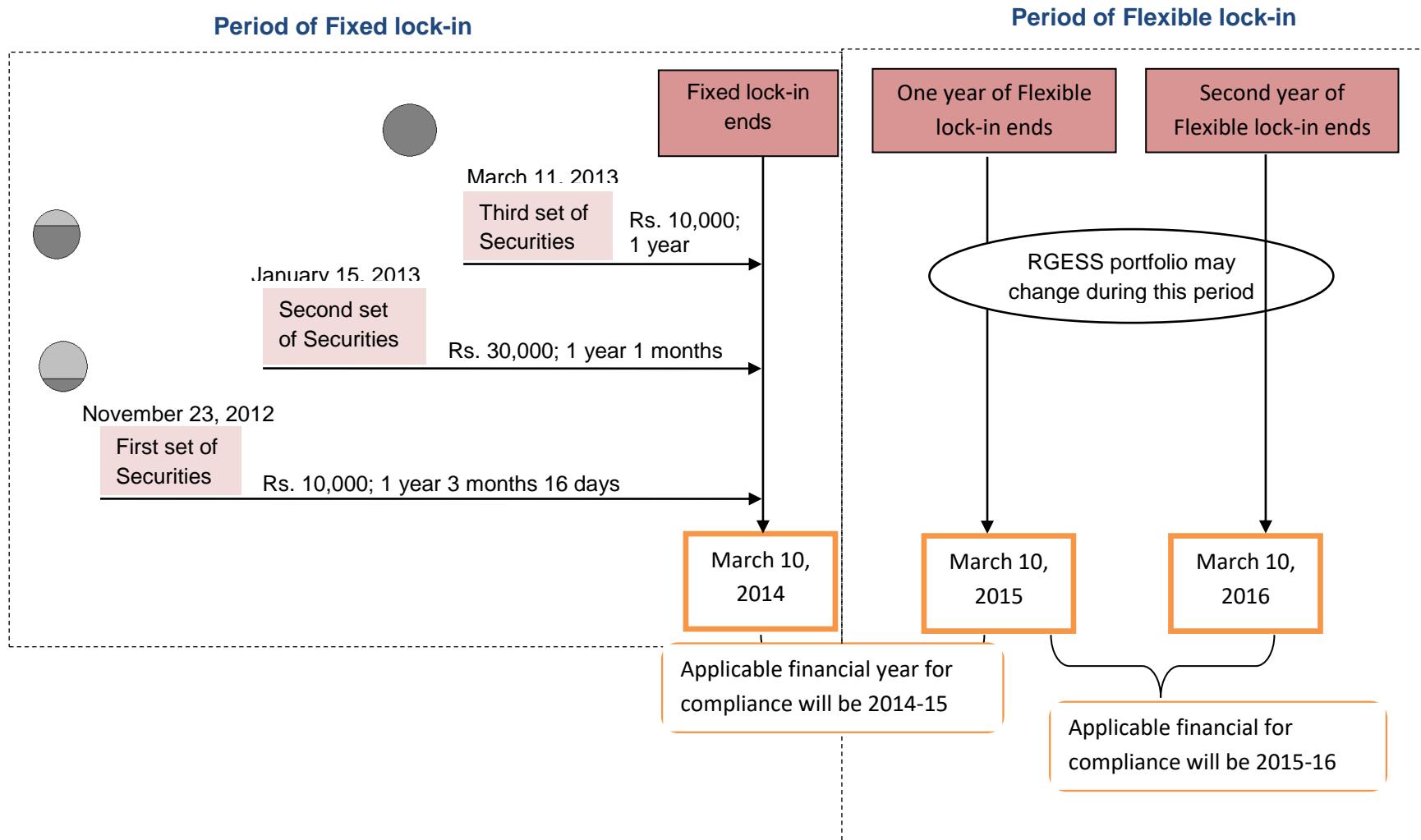
I. RGESS lock-in period if investments are brought in at once





Annexure B – Illustration of lock-in period in RGESS

I. RGESS lock-in period if investments are brought are in installments





4.22 *Principles of Financial Market Infrastructures (PFMIs)*¹³¹

Background

- i. To promote and sustain an efficient and robust global financial infrastructure, the Committee on Payments and Settlement Systems (CPSS) and the International Organization of Securities Commissions (IOSCO) published the *Principles for financial market infrastructures*¹ (PFMIs) on April 2012. They replace the three existing sets of international standards set out in the Core Principles for Systemically Important Payment Systems (CPSIPS); the Recommendations for Securities Settlement Systems (RSSS); and the Recommendations for Central Counterparties (RCCP). CPSS and IOSCO have strengthened and harmonised these three sets of standards by raising minimum requirements, providing more detailed guidance and broadening the scope of the standards to cover new risk-management areas and new types of FMIs.
- ii. The PFMIs comprise of **24 principles** (Annex 1) for Financial Market Infrastructure to provide for effective regulation, supervision and oversight of FMIs. They are designed to ensure that the infrastructure supporting global financial markets is robust and well placed to withstand financial shocks.
- iii. Full, timely and consistent implementation of the PFMIs is fundamental to ensuring the safety, soundness and efficiency of key FMIs and for supporting the resilience of the global financial system. In addition, the PFMIs play an important part in the G20's mandate that all standardized over-the-counter (OTC) derivatives should be centrally cleared. Global central clearing requirements reinforce the importance of strong safeguards and consistent oversight of derivatives CCPs in particular.

Financial Market Infrastructure (FMI)

- iv. The Principles apply to systematically important financial market infrastructures entities such as Central Counterparty (CCP), Central Securities Depository (CSD)/ Securities Settlement System (SSS), Payment and Settlement systems, and Trade Repository (TR) which are responsible for providing clearing, settlement and recording of monetary and other financial transactions. The principles are international standards set forth to –
 - a. Enhance safety and efficiency in payment, clearing, settlement, and recording arrangements,
 - b. Reduce systemic risk.

¹³¹ Reference Circular SEBI/MRD/DRMNP/26/2013 dated September 04, 2013



- c. Foster transparency and financial stability and
 - d. Promote protection of participants and investors.
- v. Financial Market Infrastructure (FMI) are critically important institutions responsible for providing clearing, settlement and recording of monetary and other financial transactions. The different categories of FMIs, as identified under PFMIs, are listed below -

Payment Systems (PSS)

A payment system is a set of instruments, procedures, and rules for the transfer of funds between or among participants. The system includes the participants and the entity operating the arrangement. Payment systems are typically based on an agreement between or among participants and the operator of the arrangement, and the transfer of funds is effected using an agreed-upon operational infrastructure.

Central Securities Depositories (CSD)

Central securities depository provides securities accounts, central safekeeping services, and asset services, which may include the administration of corporate actions and redemptions, and plays an important role in helping to ensure the integrity of securities issues (that is, ensure that securities are not accidentally or fraudulently created or destroyed or their details changed). A CSD can hold securities either in physical form (but immobilised) or in dematerialised form (that is, they exist only as electronic records). A CSD may maintain the definitive record of legal ownership for a security; in some cases, however, a separate securities registrar will serve this notary function.

Securities Settlement Systems (SSS)

A securities settlement system enables securities to be transferred and settled by book entry according to a set of predetermined multilateral rules. Such systems allow transfers of securities either free of payment or against payment. When transfer is against payment, many systems provide delivery versus payment (DvP), where delivery of the security occurs if and only if payment occurs. An SSS may be organised to provide additional securities clearing and settlement functions, such as the confirmation of trade and settlement instructions.

Central Counterparties (CCP)



A central counterparty interposes itself between counterparties to contracts traded in one or more financial markets, becoming the buyer to every seller and the seller to every buyer and thereby ensuring the performance of open contracts. A CCP becomes counterparty to trades with market participants through novation, an open-offer system, or through an analogous legally binding arrangement. CCPs have the potential to significantly reduce risks to participants through the multilateral netting of trades and by imposing more effective risk controls on all participants. For example, CCPs typically require participants to provide collateral (in the form of initial margin and other financial resources) to cover current and potential future exposures. CCPs may also mutualise certain risks through devices such as default funds. As a result of their potential to reduce risks to participants, CCPs also can reduce systemic risk in the markets they serve.

Trade Repositories (TR)

A trade repository is an entity that maintains a centralised electronic record (database) of transaction data. TRs have emerged as a new type of FMI and have recently grown in importance, particularly in the OTC derivatives market. By centralising the collection, storage, and dissemination of data, a well designed TR that operates with effective risk controls can serve an important role in enhancing the transparency of transaction information to relevant authorities and the public, promoting financial stability, and supporting the detection and prevention of market abuse. An important function of a TR is to provide information that supports risk reduction, operational efficiency and effectiveness, and cost savings for both individual entities and the market as a whole. Such entities may include the principals to a trade, their agents, CCPs, and other service providers offering complementary services, including central settlement of payment obligations, electronic novation and affirmation, portfolio compression and reconciliation, and collateral.

Adoption of Principles of Financial Market Infrastructures

- vi. All CPSS and IOSCO members are required to strive to adopt the PFmis and implement them in their respective jurisdictions.
- vii. SEBI as a member of IOSCO is committed to the adoption and implementation of the new CPSS-IOSCO standards of PFmis in its regulatory functions of oversight, supervision and governance of the key financial market infrastructures under its purview.

- viii. Depositories and Clearing Corporations regulated by SEBI are FMIs in terms of the criteria described above. These systemically important financial infrastructures provide essential facilities and perform systemically critical functions in the market and shall hence be required to comply with the principles of financial market infrastructures specified by CPSS-IOSCO as applicable to them. The list of SEBI regulated FMIs is provided in **Annexure 2**.
- ix. All FMIs in the securities market shall be monitored and assessed against the PFMIs on a periodic basis.

Annexure 1

Principles for financial market infrastructures

General Organisation

Principle 1: Legal basis

An FMI should have a well-founded, clear, transparent, and enforceable legal basis for each material aspect of its activities in all relevant jurisdictions.

Principle 2: Governance

An FMI should have governance arrangements that are clear and transparent, promote the safety and efficiency of the FMI, and support the stability of the broader financial system, other relevant public interest considerations, and the objectives of relevant stakeholders.

Principle 3: Framework for the comprehensive management of risks

An FMI should have a sound risk-management framework for comprehensively managing legal, credit, liquidity, operational, and other risks. Credit and liquidity risk management.

Principle 4: Credit risk

An FMI should effectively measure, monitor, and manage its credit exposures to participants and those arising from its payment, clearing, and settlement processes. An FMI should maintain sufficient financial resources to cover its credit exposure to each

participant fully with a high degree of confidence. In addition, a CCP that is involved in activities with a more-complex risk profile or that is systemically important in multiple jurisdictions should maintain additional financial resources sufficient to cover a wide range of potential stress scenarios that should include, but not be limited to, the default of the two participants and their affiliates that would potentially cause the largest aggregate credit exposure to the CCP in extreme but plausible market conditions. All other CCPs should maintain additional financial resources sufficient to cover a wide range of potential stress scenarios that should include, but not be limited to, the default of the participant and its affiliates that would potentially cause the largest aggregate credit exposure to the CCP in extreme but plausible market conditions.

Principle 5: Collateral

An FMI that requires collateral to manage its or its participants' credit exposure should accept collateral with low credit, liquidity, and market risks. An FMI should also set and enforce appropriately conservative haircuts and concentration limits.

Principle 6: Margin

A CCP should cover its credit exposures to its participants for all products through an effective margin system that is risk-based and regularly reviewed.

Principle 7: Liquidity risk

An FMI should effectively measure, monitor, and manage its liquidity risk. An FMI should maintain sufficient liquid resources in all relevant currencies to effect same-day and, where appropriate, intraday and multiday settlement of payment obligations with a high degree of confidence under a wide range of potential stress scenarios that should include, but not be limited to, the default of the participant and its affiliates that would generate the largest aggregate liquidity obligation for the FMI in extreme but plausible market conditions.

Settlement

Principle 8: Settlement finality

An FMI should provide clear and certain final settlement, at a minimum by the end of the value date. Where necessary or preferable, an FMI should provide final settlement intraday or in real time.

Principle 9: Money settlements

An FMI should conduct its money settlements in central bank money where practical and available. If central bank money is not used, an FMI should minimise and strictly control the credit and liquidity risk arising from the use of commercial bank money.

Principle 10: Physical deliveries

An FMI should clearly state its obligations with respect to the delivery of physical instruments or commodities and should identify, monitor, and manage the risks associated with such physical deliveries.

Central securities depositories and exchange-of-value settlement systems

Principle 11: Central securities depositories

A CSD should have appropriate rules and procedures to help ensure the integrity of securities issues and minimise and manage the risks associated with the safekeeping and transfer of securities. A CSD should maintain securities in an immobilised or dematerialised form for their transfer by book entry.

Principle 12: Exchange-of-value settlement systems

If an FMI settles transactions that involve the settlement of two linked obligations (for example, securities or foreign exchange transactions), it should eliminate principal risk by conditioning the final settlement of one obligation upon the final settlement of the other.

Default management

Principle 13: Participant-default rules and procedures

An FMI should have effective and clearly defined rules and procedures to manage a participant default. These rules and procedures should be designed to ensure that the FMI can take timely action to contain losses and liquidity pressures and continue to meet its obligations.

Principle 14: Segregation and portability

A CCP should have rules and procedures that enable the segregation and portability of positions of a participant's customers and the collateral provided to the CCP with respect to those positions.

General business and operational risk management

Principle 15: General business risk

An FMI should identify, monitor, and manage its general business risk and hold sufficient liquid net assets funded by equity to cover potential general business losses so that it can continue operations and services as a going concern if those losses materialise. Further, liquid net assets should at all times be sufficient to ensure a recovery or orderly wind-down of critical operations and services.

Principle 16: Custody and investment risks

An FMI should safeguard its own and its participants' assets and minimise the risk of loss on and delay in access to these assets. An FMI's investments should be in instruments with minimal credit, market, and liquidity risks.

Principle 17: Operational risk

An FMI should identify the plausible sources of operational risk, both internal and external, and mitigate their impact through the use of appropriate systems, policies, procedures, and controls. Systems should be designed to ensure a high degree of security and operational reliability and should have adequate, scalable capacity. Business continuity management should aim for timely recovery of operations and fulfillment of the FMI's obligations, including in the event of a wide-scale or major disruption.

Access

Principle 18: Access and participation requirements

An FMI should have objective, risk-based, and publicly disclosed criteria for participation, which permit fair and open access.

Principle 19: Tiered participation arrangements



An FMI should identify, monitor, and manage the material risks to the FMI arising from tiered participation arrangements.

Principle 20: FMI links

An FMI that establishes a link with one or more FMIs should identify, monitor, and manage link-related risks.

Efficiency

Principle 21: Efficiency and effectiveness

An FMI should be efficient and effective in meeting the requirements of its participants and the markets it serves.

Principle 22: Communication procedures and standards

An FMI should use, or at a minimum accommodate, relevant internationally accepted communication procedures and standards in order to facilitate efficient payment, clearing, settlement, and recording.

Transparency

Principle 23: Disclosure of rules, key procedures, and market data

An FMI should have clear and comprehensive rules and procedures and should provide sufficient information to enable participants to have an accurate understanding of the risks, fees, and other material costs they incur by participating in the FMI. All relevant rules and key procedures should be publicly disclosed.

Principle 24: Disclosure of market data by trade repositories

A TR should provide timely and accurate data to relevant authorities and the public in line with their respective needs.

End of Annexure 1

Annexure 2

1. Clearing Corporations

- a. Indian Clearing Corporation Ltd. (ICCL)
- b. Metropolitan Clearing Corporation of India Ltd. (MCCIL)
- c. National Securities Clearing Corporation Ltd. (NSCCL)

2. Depositories

- a. Central Depository Services Ltd. (CDSL)
- b. National Securities Depository Ltd (NSDL)

End of Annexure 2

4.23 Annual System Audit¹³²

- 4.23.1 Based on discussions with Stock Exchanges, Clearing Corporations, Depositories (hereinafter referred as 'Market Infrastructure Institutions - MIIs) and recommendations of Technical Advisory Committee (TAC) of SEBI, a System Audit Framework has been prescribed to keep pace with the technological advancements in the securities market.
- 4.23.2 MIIs are to conduct an Annual System Audit as per the framework enclosed as Annexure 1 and Terms of Reference (TOR) enclosed as Annexure 2. MIIs are also required to maintain a list of all the relevant SEBI circulars/ directions/ advices, etc. pertaining to technology and compliance thereof, as per format enclosed as Annexure 3 and the same shall be included under the scope of System Audit.
- 4.23.3 Further, MIIs are required to submit information with regard to exceptional major Non-Compliances (NCs)/ minor NCs observed in the System Audit as per format enclosed as Annexure 4 and are required to categorically highlight those

¹³² Circular No. SEBI/HO/MRD1/ICC1/CIR/P/2020/03 dated January 07, 2020



observations/NCs/suggestions pointed out in the System Audit (current and previous) which remain open.

- 4.23.4 The Systems Audit Report including compliance with SEBI circulars/ guidelines and exceptional observation format along with compliance status of previous year observations shall be placed before the Governing Board of the MII and then the report along with the comments of the Management of the MII shall be communicated to SEBI within a month of completion of audit. Further, along with the audit report, MIIs are advised to submit a declaration from the MD / CEO certifying the security and integrity of their IT Systems.

Annexure 1
System Audit Framework

Audit Process

1. For the Annual System Audit, the following broad areas shall be considered in order to ensure that the audit is comprehensive and effective:
 - a. The Audit shall be conducted according to the Norms, Terms of Reference (TOR) and Guidelines issued by SEBI.
 - b. The Governing Board of the Market Infrastructure Institution (MII) shall appoint the Auditors based on the prescribed Auditor Selection Norms and TOR.
 - c. An Auditor can perform a maximum of 3 successive audits. However, such auditor shall be eligible for re-appointment after a cooling-off period of two years.
 - d. Further, during the cooling-off period, the incoming auditor may not include:
 - i. Any firm that has common partner(s) with the outgoing audit firm; and
 - ii. Any associate / affiliate firm(s) of the outgoing audit firm which are under the same network of audit firms wherein the term "same network" includes the firms operating or functioning, hitherto or in future, under the same brand name, trade name or common control.
 - e. The number of years an auditor has performed an audit prior to this circular shall also be considered in order to determine its eligibility in terms of sub-clause c above.



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- f. The scope of the Audit may be broadened to incorporate any new developments that may arise due to issuance of circulars/ directions/ advice by SEBI from time to time.
- g. The period of Audit shall not be for more than 12 months. Further, the Audit shall be completed within 2 months from the end of the Audit Period.
- h. In the Audit report, the Auditor shall include its comments on whether the areas covered in the Audit are in compliance with the norms/ directions/ advices issued by SEBI, internal policy of the MII, etc. Further, the report shall also include specific non-compliances (NCs), observations for minor deviations and suggestions for improvement. The report shall take previous audit reports into consideration and cover any open items therein. The auditor should indicate if a follow-on audit is required to review the status of NCs.
- i. For each of the NCs/ observations and suggestions made by the Auditor, specific corrective action as deemed fit by the MII may be taken. The management of the MII shall provide its comments on the NCs, observations and suggestions made by the Auditor, corrective actions taken or proposed to be taken along with time-line for such corrective action.
- j. The Audit report along with the comments of management shall be placed before the Governing Board of the MII. The Audit report along with Comments of the Governing Board shall be submitted to SEBI, within 1 month of completion of Audit.
- k. The follow-on audit should be completed within one month of the corrective actions taken by the MII. After the follow-on audit, the MII shall submit a report to SEBI within 1 month from the date of completion of the follow-on audit. The report shall include updated Issue-Log to indicate the corrective actions taken and specific comments of the Auditor on the NCs and the corrective actions.
- l. If follow-on audit is not required, the MII shall submit an Action Taken Report (ATR) to the Auditor. After verification of the ATR by the Auditor, the MII shall submit a report to SEBI within 1 month from the date of completion of verification by the Auditor. The report shall include updated Issue-Log to indicate the corrective actions taken and specific comments of the Auditor on the ATR.
- m. The overall timeline from the last date of the audit period till completion of final compliance by MII, including follow-on audit, if any, should not exceed one year. In exceptional cases, if MII is of the view that compliance with certain observations may



extend beyond a period of one year, then the concerned MII shall seek specific approval from the Governing Board.

Auditor Selection Norms

2. MII shall ensure compliance with the following norms while appointing System Auditor:
 - a. The Auditor must have minimum 3 years of demonstrable experience in IT audit of Securities Industry i.e. Stock Exchanges, Clearing Corporations, Depositories, intermediaries etc. and/ or Financial Services Sector i.e. Banking, Insurance, Fin-tech.
 - b. The team performing system audit must have experience in / direct access to experienced resources in the areas covered under TOR. It is recommended that resources deployed by the Auditor for the purpose of system audit shall have relevant industry recognized certifications e.g. CISA (Certified Information Systems Auditor) from ISACA, CISM (Certified Information Security Manager) from ISACA, GSNA (GIAC Systems and Network Auditor), CISSP (Certified Information Systems Security Professional) from International Information Systems Security Certification Consortium, commonly known as (ISC).
 - c. The Auditor shall have experience in working on IT audit/governance/IT service management frameworks and processes conforming to industry leading practices like CobIT 5/ ISO 27001 and beyond.
 - d. The Auditor should have the capability to undertake forensic audit and undertake such audit as part of Annual System Audit, if required.
 - e. The Auditor must not have any conflict of interest in conducting fair, objective and independent audit of the exchange / depository/ clearing corporation. It should not have been engaged over the last three years in any consulting engagement with any departments / units of the entity being audited.
 - f. The Auditor should not have any cases pending against it, which point to its incompetence and/ or unsuitability to perform the audit task.
 - g. The proposed audit agency must be empanelled with CERT-In.
 - h. Any other criteria that the MII may deem fit for the purpose of selection of Auditor.

Audit Report Guidelines



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3. The Audit report should cover each of the major areas mentioned in the TOR and compliance with SEBI circulars/directions/advises, etc. related to technology. The Auditor in the Audit Report shall give its views indicating the NCs to the standards or observations or suggestions. For each section, auditors should also provide qualitative inputs/suggestions about ways to improve the processes, based upon the best industry practices.
4. The report should also include tabulated data to show NCs / observations for each of the major areas in the TOR.
5. Evidences should be specified in the Audit Report while reporting/ closing an issue.
6. A detailed report with regard to the System Audit shall be submitted to SEBI. The report should include an Executive Summary as per the following format:

Issue Log Column Heading	Description	Responsibility
Major Area	Major area/relevant clause in TOR against which compliance is being audited	Auditor
Description of Finding/ Observation	Describe the findings in sufficient detail, referencing any accompanying evidence (e.g. procedure manual, interview notes, reports etc.)	Auditor
Reference	Reference to the section in detailed report - where full background information about the findings are available	Auditor
Process/ Unit	Process or unit where the audit is conducted and the finding pertains to	Auditor

Category of Findings	Major/Minor Non-compliance, Observation, Suggestion etc.	Auditor
Audited By	Which Auditor covered the findings	Auditor
Root Cause Analysis	A detailed analysis on the cause of the Non-compliance	Auditee
Remediation	The action (to be) taken to correct the Non-compliance	Auditee
Target Completion Date for Remedial Action	The date by which remedial action must be/will be completed	Auditor/Auditee
Status	Status of finding on reporting date (open/close)	Auditor/Auditee
Verified By	Auditing personnel (upon verification that finding can be closed)	Auditor
Closing Date	Date when finding is verified and can be closed	Auditor

Annexure 2

System Audit Program – Terms of Reference (TOR)

1. IT environment

- 1.1 Organization details
 - a. Name
 - b. Address

- c. IT team size (in house- employees)
 - d. IT team size (vendors)
- 1.2 IT set up and usage
- a. Data Centre, near site and DR site and Regional/ Branch offices (location, owned/ outsourced)
 - b. System Architecture

2. IT Governance

- 2.1 Whether IT Governance framework exists to include the following:
- a. IT organization structure including roles and responsibilities of key IT personnel;
 - b. IT governance processes including policy making, implementation and monitoring to ensure that the governance principles are followed;
- 2.2 IT policies and procedures
- a. Whether the organization has defined and documented IT policy? If yes, is it approved by the Governing Board (GB)?
 - b. Is the current System Architecture including infrastructure, network and application components to show system linkages and dependencies documented?
 - c. Whether defined and documented Standard Operating Procedures (SOPs) for the following processes are in place?
 - i. IT Assets Acquisition
 - ii. Access Management
 - iii. Change Management
 - iv. Backup and Recovery
 - v. Incident Management
 - vi. Problem Management
 - vii. Patch Management
 - viii. Data Centre Operations
 - ix. Operating Systems and Database Management
 - x. Network Management
 - xi. DR Site Operations



xii. Data Retention and Disposal

3. Business Controls

3.1 General Controls for Data Centre Facilities

- a. Application Access – segregation of duties, database and application access etc. (Approved Policy clearly defining roles and responsibilities of the personnel handling business operations)
- b. Maintenance Access – vendor engineers
- c. Physical Access – permissions, logging, exception reporting & alerts
- d. Environmental Controls – fire protection, AC monitoring, etc.
- e. Fault Resolution Mechanism
- f. Folder Sharing and Back Up Controls – safeguard of critical information on local desktops
- g. Incidences of violations in last year and corrective action taken

3.2 Software change control

- a. Whether pre-implementation review of application controls (including controls over change management) was undertaken?
- b. Adherence to secure Software Development Life Cycle (SDLC) / Software Testing Life Cycle (STLC) standards/ methodologies
- c. Whether post implementation review of application controls was undertaken?
- d. Is the review of processes followed by implementation team to ensure data integrity post implementation of new application or system?
- e. User awareness
- f. Processing of new feature request
- g. Fault reporting / tracking mechanism & process for resolutions
- h. Testing of New releases / Bug-fixes – Testing process (automation level)
- i. Version Control – History, Change Management process etc.
- j. Development / Test/ Production environment - Segregation
- k. New Release in Production – Promotion, Release note approvals
- l. Production Issues / disruptions reported during last year, root cause analysis & corrective actions taken
- m. Software Development Stage
- n. Software Design to bot 'crash' and capacity to work in degraded manner

3.3 Data Communication/ Network Controls

- a. Network Administration – Redundancy, Monitoring, breakdown resolution etc.



- b. WAN Management – Connectivity provisions for business continuity.
- c. Encryption - Router based as well as during transmission
- d. Connection Permissions – Restriction on need to have basis
- e. Fallback Mechanism – Dial-up connections controls etc.
- f. Hardware based Signing Process
- g. Incidences of access violations in last year & corrective actions taken

3.4 Security Controls

- a. Secured e-mail with other entities like SEBI, other partners
- b. Email Archival Implementation

3.5 Access Policy and Controls

- a. Defined and documented policies and procedures for managing access to applications and infrastructure – PDC, DRS, NS, branches (including network, operating systems and database) and approved by relevant authority
- b. Review of access logs
- c. Access rights and roles review procedures for all systems
- d. Segregation of Duties (SOD) matrix describing key roles
- e. Risk acceptance for violation of SOPs and alternate mechanism put in place
- f. Privileged access to system and record of logs,
- g. Periodic monitoring of access rights for privileged users
- h. Authentication mechanisms used for access to systems including use of passwords, One Time Passwords (OTP), Single Sign on, etc.

3.6 Electronic Document Controls

3.7 General Access Controls

3.8 Performance Audit

- a. Comparison of changes in transaction volumes since previous audit
- b. Review of systems (hardware, software, network) performance over period
- c. Review of the current volumes against the last performance test and against the current system utilization

3.9 Business Continuity / Disaster Recovery Facilities

- a. BCP manual, including Business Impact Analysis (BIA), Risk Assessment and DR process, Roles and responsibilities of BCP team}
- b. Implementation of policies

- c. Back-up procedures and recovery mechanism using back-ups.
 - d. Storage of Back-up (Remote site, DRS etc.)
 - e. Redundancy – Equipment, Network, Site etc.
 - f. DRS installation and Drills - Management statement on targeted resumption capability (in terms of time required & extent of loss of data)
 - g. Evidence of achieving the set targets during the DRS drills in event of various disaster scenarios.
 - h. Debrief / review of any actual event when the DR/BCP was invoked during the year
 - i. User awareness and training
 - j. Is Recovery Time Objective (RTO) /Recovery Process Objective (RPO) during Business Impact Analysis (BIA) documented?
 - k. Is annual review of BCP-DR or in case of major change in business/ infrastructure undertaken?
 - l. Testing of BCP-DR plan through appropriate strategies including simulations, DR drills, system recovery, etc.
- 3.10 IT Support & IT Asset Management
- a. Utilization Monitoring – including report of prior year utilization
 - b. Capacity Planning – including projection of business volumes
 - c. IT (S/W, H/W & N/W) Assets, Licenses & maintenance contracts
 - d. Comprehensive review of Assets life cycle management (Acquisition, commissioning, deployment, monitoring, maintenance and de commissioning) and relevant records related to it.
 - e. Insurance
 - f. Disposal – Equipment, media, etc.
4. Entity Specific Software used for or supporting trading/clearing systems / peripheral systems and critical processes
5. Human Resources Management
- 5.1 Screening of Employee, Third party vendors / contractors
 - 5.2 Onboarding
 - 5.3 Offboarding
 - 5.4 Consequence Management (Incident / Breach of policies)
 - 5.5 Awareness and Trainings

- 5.6 Non-Disclosure Agreements (NDAs) and confidentiality agreement
6. IT Vendor Selection and Management
- 6.1 Identification of eligible vendors
 - 6.2 Dissemination process of Request for Proposal (RFP)
 - 6.3 Definition of criteria of evaluation
 - 6.4 Process of competitive analysis
 - 6.5 Approach for selection
 - 6.6 Escrow arrangement for keeping source code
7. E-Mail system
- 7.1 Existence of policy for the acceptable use of electronic mail
 - 7.2 Regulations governing file transfer and exchange of messages with external parties
 - 7.3 Rules based on which e-mail addresses are assigned
 - 7.4 Storage, backup and retrieval
8. Redressal of Technological Complaints
9. Any other Item
- 9.1 Electronic Waste Disposal
 - 9.2 Observations based on previous Audit Report (s)
 - 9.3 Any other specific area that may be informed by SEBI.

Annexure 3

Format for monitoring compliance with SEBI circulars/guidelines/advisories related to technology

Sl.	Date of	Subj	Technolo	Mechan	Non	Complia	Commen	Time-
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N.O.	SEBI circular / directions/ advice, etc.	ect	gical requirements specified by SEBI in brief	ism put in place by the MIIs	compliances with SEBI circulars / guidelines	nce status (Open/closed)	ts of the Management	line for taking corrective action in case of open observations

Annexure 4

Exception Observation Reporting Format

Note: MIIs are expected to submit following information with regard to exceptional major non-compliances (NCs) / minor NCs observed in the System Audit. MIIs should also categorically highlight those observations/NCs/suggestions pointed out in the System Audit (current and previous) which are not yet complied with.

Name of the MII: _____

Name of the System Auditor: _____

Systems Audit Report Date: _____

Table 1: For preliminary audit

Audit period	Observation No.	Description of finding	Department	Status/ Nature of	Risk Rating of	Audit T O R	Roo t Cau se Ana	Impact Analysis	Corrective Actions	Dealing for the correction	Management response in	Whether similar issue



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				fin din g	fin din g as per Au dito r	cla us e	lysi s		pro pos ed by audit or	ctive actio n	case of accept ance of associ ated risks	e was obse rved in any of the prev ious 3 Aud its

Description of relevant Table heads

- Audit Period-** This indicates the period of audit
- Description of findings/observations –** Description of the findings in sufficient details, referencing any accompanying evidence
- Status/ Nature of Findings –** The category can be specified for example:
 - Non-compliant (Major/Minor)
 - Work in progress
 - Observation
 - Suggestion
- Risk Rating of finding-** A rating has to be given for each of the observations based on their impact and severity to reflect the risk exposure, as well as the suggested priority for action

Rating	Description
HIGH	Represents weakness in control with respect to threat(s) that is /are sufficiently capable and impacts asset (s) leading to regulatory non-compliance, significant financial, operational

	and reputational loss. These observations need to be addressed with utmost priority.
MEDIUM	Represents weakness in control with respect to threat(s) that is /are sufficiently capable and impacts asset (s) leading to exposure in terms of financial, operational and reputational loss. These observations need to be addressed reasonably promptly.
LOW	Represents weaknesses in control, which in combination with other weakness can develop into an exposure. Suggested improvements for situations not immediately/directly affecting controls.

5. **Audit TOR clause** – The TOR clause corresponding to this observation
6. **Root Cause analysis**– A detailed analysis on the cause of the non-conformity.
7. **Impact Analysis**– An analysis of the likely impact on the operations/ activity of the organization
8. **Corrective Action**– The action taken to correct the non-conformity

Table 2: For follow on/ follow up system audit

Preliminary Audit Date	Preliminary Audit Period	Preliminary Observation Number	Preliminary Status	Preliminary Corrective Action as proposed by Auditor	Current Finding	Current Status	Revised Corrective Action, if any	Deadline for the Revised Corrective Action	Reason for delay in implementation/compliance

Description of relevant Table heads

1. **Preliminary Status** – The original finding as per the preliminary System Audit Report
2. **Preliminary Corrective Action** – The original corrective action as prescribed in the preliminary system audit report
3. **Current Finding** – The current finding w.r.t. the issue
4. **Current Status** – Current Status of the issue viz. compliant, non-compliant, work in progress (WIP)
5. **Revised Corrective Action** – The revised corrective action prescribed w.r.t. the Non-compliant/ WIP issue

4.24 Guidelines for Business Continuity Plan (BCP) and Disaster Recovery (DR) ^{133and 134}

- i. The stock exchanges, clearing corporations and depositories(collectively referred as Market Infrastructure Institutions -MIIs) should have in place BCP and DRS so as to maintain data and transaction integrity.
- ii. Apart from DRS, stock exchanges and clearing corporations should also have a Near Site (NS) to ensure zero data loss whereas, the depositories should also ensure zero data loss by adopting a suitable mechanism.
- iii. The DRS should preferably be set up in different seismic zones and in case due to certain reasons such as operational constraints, change of seismic zones, etc., minimum distance of 500 kilometer shall be ensured between PDC and DRS so that both DRS and PDC are not affected by the same disaster
- iv. The manpower deployed at DRS / NS should have similar expertise as available at PDC in terms of knowledge / awareness of various technological and procedural systems and processes relating to all operations such that DRS / NS can function at short notice, independently. MIIs should have sufficient number of trained staff at their DRS so as to have the capability of running live operations from DRS without involving staff of the primary site.
- v. Configuration of DRS / NS with PDC

¹³³ Circular No. CIR/MRD/DMS/12/2012 dated April 13, 2012 and clarification issued vide Circular No. CIR/MRD/ DMS/17/2012 dated June 22, 2012

¹³⁴ Reference Circular SEBI/HO/MRD/DMS1/CIR/P/2019/43 dated March 26, 2019 - extant framework re-examined and modified



- a) Hardware, system software, application environment, network and security devices and associated application environments of DRS / NS and PDC should have one to one correspondence between them.
- b) MIIs should endeavor to develop systems that do not require configuration changes at the end of trading members/ clearing members/ depository participants for switchover from the PDC to DRS. Further, MIIs should test such switchover functionality by conducting unannounced 2 day live trading session from its DRS. This would help to gauge the state of readiness of various other processes and procedure relating to business continuity and disaster recovery that may not get tested in a planned exercise.
- c) MIIs should have Recovery Time Objective (RTO) and Recovery Point Objective (RPO) not more than 4 hours and 30 minutes, respectively.
- d) The time taken to define/ establish/ declare a disaster should not be more than 2 hours and the total RTO including the time taken to declare an incident as disaster should not be more than 4 hours. Further, RTO shall be calculated from the occurrence of disaster and not from the time an incident is declared a disaster.
- e) Solution architecture of PDC and DRS / NS should ensure high availability, fault tolerance, no single point of failure, zero data loss, and data and transaction integrity.
- f) Any updates made at the PDC should be reflected at DRS / NS immediately (before end of day) with head room flexibility without compromising any of the performance metrics.
- g) Replication architecture, bandwidth and load consideration between the DRS/ NS and PDC should be within stipulated RTO and ensure high availability, right sizing, and no single point of failure.
- h) Replication between PDC and NS should be synchronous to ensure zero data loss. Whereas the one between PDC and DR and between NS and DR may be asynchronous.
- i) Adequate resources (with appropriate training and experience) should be available at all times to handle operations on a regular basis as well as during disasters.

vi. DR Drills / Testing

- a) DR drills should be conducted on quarterly basis. In case of exchanges, these drills should be closer to real life scenario (trading days) with minimal notice to DR staff involved.
- b) During the drills, the staff based at PDC should not be involved in supporting

operations in any manner.

- c) The drill should include running all operations from DRS for at least 1 full trading day.
- d) Before DR drills, the timing diagrams clearly identifying resources at both ends (DRS as well as PDC) should be in place.
- e) The results and observations of these drills should be documented and placed before the Governing Board of Stock Exchange / Depositories. Subsequently, the same along with the comments of the Governing Board should be forwarded to SEBI within a month of the DR drill.
- f) The system auditor while covering the BCP - DR as a part of mandated annual system audit should check the preparedness of the MII to shift its operations from PDC to DRS unannounced and should also comment on documented results and observations of DR drills.
- g) Live trading sessions from DR site shall be scheduled for at least two consecutive days in every six months. Such live trading sessions from the DRS shall be organized on normal working days (i.e. not on weekends / trading holidays). The stock exchange/ clearing corporation shall ensure that staff members working at DRS have the abilities and skills to run live trading session independent of the PDC staff.
- h) Stock exchanges and clearing corporations shall include a scenario of intraday shifting from PDC to DR during the mock trading sessions in order to demonstrate its preparedness to meet RTO/RPO as stipulated above.
- i) MII should undertake and document Root Cause Analysis (RCA) of their technical/ system related problems in order to identify the causes and to prevent reoccurrence of similar problems.

vii. BCP - DR Policy Document

- a) Stock exchanges, clearing corporations and depositories, depending upon their line of business shall decide the definition of 'Disaster' which requires them to move from the PDC to DRS and include the same in the BCP-DR Policy. The above policy shall be approved by the respective Governing Boards of MIIs.
- b) The BCP - DR policy of stock exchanges and depositories should be well documented covering all areas as mentioned above including disaster escalation hierarchy.
- c) The stock exchanges should specifically address their preparedness in terms of



proper system and infrastructure in case disaster strikes during business hours.

- d) Depositories should also demonstrate their preparedness to handle any issue which may arise due to trading halts in stock exchanges
 - e) The policy document and subsequent changes / additions / deletions should be approved by Governing Board of the Stock Exchange / Depositories and thereafter communicated to SEBI.
 - f) In case a MII desires to lease its premise at the DRS to other entities including to its subsidiaries or entities in which it has stake, the MII should ensure that such arrangements do not compromise confidentiality, integrity, availability, targeted performance and service levels of the MII's systems at the DRS. The right of first use of all the resources at DRS including network resources should be with the MII. Further, MII should deploy necessary access controls to restrict access (including physical access) of such entities to its critical systems and networks.
- viii. Considering the above, stock exchanges and depositories are advised to submit their BCP - DR policy to SEBI within 3 months from the date of this circular. Further, they should also ensure that point 1 (vi) (f) mentioned above is also included in scope of system audit.

4.25 *(Information Technology) IT Governance For Depositories*¹³⁵

- i. SEBI constituted the Depository System Review Committee (DSRC) to undertake a comprehensive review of the Indian depository system. Based on the recommendations of DSRC, following guidelines are issued to strengthen the information Technology (IT) governance framework of depositories.
- ii. Depositories shall formulate an *IT strategy committee* at the Board level of depository to provide insight and advice to the Board in various areas that may include:
 - a. Developments in IT from a business perspective.
 - b. The alignment of IT with the business direction.
 - c. The availability of IT resources to meet strategic objectives.
 - d. Competitive aspects of IT Investments.
 - e. Alignment of the IT architecture to the organization needs and its approval.
 - f. Setting priorities and milestones.
- iii. Depositories shall formulate an executive level *IT Steering Committee* to assist the IT Strategy Committee in Implementation of IT strategy. The IT steering committee shall

¹³⁵ Reference: MRD/DMS/03/2014 dated January 21, 2014



comprise of representatives from IT, Human Resources (HR), Legal and various business functions as felt appropriate.

- iv. The Depositories shall formulate an IT strategy document and an Information Security policy which should be approved by the Board and reviewed annually.
- v. The Depositories shall create an Office of Information Security and designate a senior official as Chief Information Security Officer (CISO) whose work would be to assess, identify and reduce information technology (IT) risks, respond to incidents, establish appropriate standards and controls, and direct the establishment and implementation of policies and procedures.
- vi. SEBI has laid down Guidelines for Business Continuity Plan (BCP) and Disaster Recovery (DR) for stock exchange and depositories vide circular CIR/MRD/DMS/12/2012 dated April 13, 2012 and CIR/MRD/DMS//17/2012 dated June 22, 2012. In Addition to the requirements of the aforementioned circulars, depositories shall designate a senior official as the head of BCP function.

4.26 Guidelines for inspection of Depository Participants (DPs) by Depositories¹³⁶

- i. Depository System Review Committee (DSRC) was constituted by SEBI to undertake a comprehensive review of the depository system of Indian Securities market.
- ii. As a first measure, DSRC has reviewed framework adopted by the depositories with regard to the inspection of depository participants (DPs). Considering the recommendations of the committee, it has been decided that depositories shall ensure the following while inspecting their DPs.

Inspection Areas and Sample Size

- iii. For conducting inspection of DPs, depositories shall inspect the areas as mentioned in Annexure - I. During inspection, depositories shall cover implementation of circulars / guidelines issued by SEBI and guidelines / operating instructions / directions by depositories in respect of these areas. In addition, Depositories may include such other areas as felt appropriate.
- iv. For the purpose of determining the size of sample, depositories shall be guided by 'Adaptive Sample Size determination methodology' as mentioned at Annexure - II.

¹³⁶ Reference Circular SEBI/MRD/DMS/05/2014 dated February 07, 2014

Categorization / Risk Rating of DPs

- v. For the purpose of computing total risk score of DPs, depositories shall be guided by "DP Rating Model / Categorization" as mentioned at Annexure - III.
- vi. Depositories should periodically undertake risk - impact analysis for each of the inspection areas, assign appropriate risk weightage, calculate risk scores for each DPs in the lines mentioned below.
 - a. Risk Weightage: Depositories shall assign risk weights for each of inspection areas after taking into consideration following factors:
 - 1. Operational risks in each of the inspection areas.
 - 2. Category of DPs (such as stock broker DPs, bank DP, etc.)
 - 3. Size of Operation
 - 4. Repetitive violations
 - 5. IT Security and BCP
 - 6. Complaints received and redressed
 - b. Quantitative Score Calculation: Depositories shall arrive at a Quantitative Risk Score for each inspection area by multiplying percentage of non-compliance to the sample size with the corresponding assigned risk weight.
 - c. Qualitative Score Calculation: Depositories shall arrive at a Qualitative Risk Score for each qualitative area by multiplying the score assigned by inspection team to DP with corresponding assigned risk weight.
 - d. Total DP Risk Score shall be the summation of quantitative and qualitative scores assigned to the DP.
 - e. Depositories shall suitably normalize the scales of the qualitative and quantitative scores in arriving at the Total DP risk score.
- vii. Depositories shall categorize their DPs as 'High Risk', 'Medium to High Risk', 'Medium Risk', and 'Low Risk' DPs based on the percentile of risk score.

DP Risk Rating / Categorization	Percentile of Risk Score
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High	≥ 80
Medium-High	46-79
Medium	21-45
Low	≤ 20

- viii. After arriving at the risk rating / categorization as mentioned above, for subsequent inspections, depositories shall use the DP risk rating/ categorization to decide on the frequency of inspection of DPs
- ix. Apart from the above, depositories may undertake specific purpose inspections for DPs which score high in the specific inspection areas as mentioned at Annexure - I.
- x. Depositories shall jointly inspect DPs which are registered with both depositories to have better control over DPs, avoid duplicity of manpower, time and cost and also to reduce the possibility of regulatory arbitrage, if any. Depositories shall share the risk rating / categorization of common DPs with each other. For the purpose of determining sample size and frequency of the joint inspection of such common DPs, the higher risk categorization assigned by any of the Depository shall prevail.

Annexure -I
List of Inspection Areas

- 1. Depositories shall inspect the areas mentioned at para 2 below during inspection of DPs with regards to any
 - 1.1. Circulars / Guidelines issued by SEBI on the areas mentioned below.
 - 1.2. Guidelines / Operating Instructions / Directions from depositories on the areas mentioned below.
- 2. In case there are built in system checks at the depository that ensure compliance of any of the inspection areas / sub -areas with regard to point 1.1 and 1.2 above, the depository may decide on the including the same during the inspection of DPs

Inspection Areas

A. Account Opening / KYC Documents

- A.1. Account Opening forms
 - A.2. KYC Documents
 - A.2.1. PAN Verification
 - A.2.2. In-person verification
 - A.2.3. Forwarding of Documents to KYC Registration Agency (KRA)
 - A.3. Proof of Identity (POI)
 - A.4. Proof of Address
 - A.5. Correspondence Address
 - A.6. Authorized Signatories
 - A.7. Completeness / Validation of data entered into DPM with data provided in the Account Opening forms
 - A.8. Minor BO / Joint / HUF accounts
 - A.9. Account Activation
 - A.10. PMS Accounts
 - A.11. Nomination
 - A.12. Any other area as may be specified by the depository
-
- B. Basic Service Demat Account (BSDA)
 - B.1. Procedures and Checks pertaining to BSDA
 - B.2. Any other area as may be specified by the depository
-
- C. Client Data Modification (CDM)
 - C.1. Procedure for CDM
 - C.2. Any other area as may be specified by the depository
-
- D. Demat / Remat / Conversion /Reconversion request
 - D.1. Procedure for receiving/processing requests pertaining to Demat / Remat / Conversion /Reconversion request
 - D.2. Procedure for forwarding requests pertaining to Demat / Remat / Conversion /Reconversion request to RTA / issuer

- D.3. Arrangement for Safekeeping of Security / Share Certificates
- D.4. Tracking of demat requests
- D.5. Rejection of above requests attributable to DPs
- D.6. Checks pertaining to processing of Demat / Remat / Conversion / Reconversion request
- D.7. Any other area as may be specified by the depository

E. Delivery Instruction Slip (DIS)

- E.1. Issuance of DIS
- E.2. Inventory Control of DIS
- E.3. First Instruction Slip Booklet
- E.4. Requisition Slip
- E.5. Procedure for Loose DIS
- E.6. Depository specific areas
- E.7. Verification of DIS
- E.8. Procedure for accepting DIS
- E.9. Time Stamping and related Areas
- E.10. Accepting DIS by Fax
- E.11. Accepting DIS in form of Annexure
- E.12. Completeness of DIS
- E.13. Accepting DIS in electronic form
- E.14. Procedure for Verification of DIS
- E.15. Signature Verification
- E.16. Corrections / Cancellations to DIS
- E.17. Blocking of used / executed / lost / misplaced / Stolen DIS
- E.18. Procedure for processing of DIS
- E.19. Any other area as may be specified by the depository

F. Transaction

F.1.Checks pertaining to setting up / processing of transactions

F.2.Future dated transactions

F.3.Transfer of all ISINs of BO account having 5 or more ISINs

F.4.Any other area as may be specified by the depository

G. Transaction Statement (TS)

G.1. Validation of TS

G.2. Maintenance of records of TS

G.3. Issuance of TS to BOs

G.4. Any other area as may be specified by the depository

H. Compliance under Prevention of Money Laundering Act, 2002 (PMLA)

H.1. Compliance with PMLA Act, 2002 and SEBI Guidelines on areas such as Customer due diligence, suspicious transaction monitoring , reporting and record keeping

H.2. Appointment of Principal officer as required under PMLA Act,2002

H.3. Mechanism to deal with alerts provided by Depository

H.4. Suspicious Transactions reports to FIU

H.5. Any other area as may be specified by the depository

I. Maintenance of record and documents

I.1. Information regarding place(s) of record keeping

I.2. Outsourcing of record keeping activities

I.3. Any other area as may be specified by the depository

J. Service Centre Opening and closing/ modification of service centers

J.1. Procedure for Opening /Closure of Service centers

J.2. Details of Service centre on Depository website

J.3. Qualified persons at service centers

J.4. Any other area as may be specified by the depository

K. Information Technology areas

- K.1. Hardware, Software and Network requirements / configurations
- K.2. Logical and Physical restrictions / safeguards
- K.3. IT Security
- K.4. Procedure for alteration of parameters / configurations
- K.5. Redundancy
- K.6. Any other area as may be specified by the depository

L. Power of Attorney (POA)

- L.1. Documents executed
- L.2. Maintenance of POA Register
- L.3. Clauses of POA
- L.4. Registration of BO for SMS Alert facility for POA
- L.5. Any other area as may be specified by the depository

M. Inter Depository Transfers (IDT)

- M.1. Processing of IDT
- M.2. Checks pertaining to IDT
- M.3. Any other area as may be specified by the depository

N. Account Transfer

- N.1. Procedure followed for account transfer
- N.2. Checks pertaining to Account transfer
- N.3. Waiver claimed for inter depository transfer
- N.4. Any other area as may be specified by the depository

O. Transmission

- O.1. Procedure followed for transmission

- O.2. Checks pertaining to Transmission
- O.3. Waiver Claimed for inter depository transfer
- O.4. Any other area as may be specified by the depository

P. Pledge / Unpledge

- P.1. Procedure followed for Pledge / Unpledge
- P.2. Checks pertaining to Pledge / Unpledge
- P.3. Any other area as may be specified by the depository

Q. Freeze / Unfreeze

- Q.1. Freeze facility
- Q.2. Procedure followed for Freeze
- Q.3. Checks pertaining to freeze
- Q.4. Any other area as may be specified by the depository

R. Miscellaneous areas

- R.1. Investor Grievance
- R.2. Forms for various activities
- R.3. Execution of any supplementary agreement/ Letter of Confirmation
- R.4. Submission of Internal Audit / Concurrent Audit / Net worth Certificate
- R.5. Submission of Annual Financial Statement
- R.6. Outsourcing of Activities
- R.7. Closure / transfer of Balances
- R.8. Submission of Information sought by Depositories specifically through Circulars / Letters.
- R.9. Half Yearly Compliance
- R.10. Any other area as may be specified by the depository

S. Status of compliance for deviations / observations noted in last inspection

T. Complaints

- T.1. Account Opening
- T.2. Demat / Remat
- T.3. Transaction Statement
- T.4. Improper Service
- T.5. Charges
- T.6. Delivery Instruction Related (DIS)
- T.7. Closure
- T.8. Manipulation / Unauthorized Action
- T.9. Monthly report for client complaints
- T.10. Other Complaints

Annexure -II

Adaptive Sample Size Determination methodology

1. Sample Size for inspection area of 'Account Opening'

- The sample selection for account opening shall cover all categories of clients such as individuals, HUF, Corporate, FIIs etc.
- Base sample size: 5% of Account Opening Forms (AOFs) or 150 AOFs whichever is higher, with a maximum cap of 1000 accounts.
- Final Sample Size: The final sample size shall also be dependent on past rating / categorization of DP. The following multipliers shall be used to determine the final sample size for the current inspection. In case the total number of instances / cases is less than the final sample size, then 100% of the samples shall be verified.

DP Rating/ Categorization	Multiplier
High risk	3
Medium High risk	2
Medium risk	1.5
Low risk	1



- The selected sample shall maintain the proportion of new accounts opened in each category, except for Account Opening Forms (AOF) relating to FIIs where it shall be checked on a 100% basis.

2. Sample Size for inspection area relating to DIS

- Base sample size: 10% of total DIS processed or 200 processed DIS whichever is higher, with a maximum cap of 1000 DIS.
- Final Sample Size: The sample size shall also be dependent on rating / categorization of DP. The following multipliers shall be used to determine the final sample size for the current inspection. In case the total number of instances / cases is less than the final sample size, then 100% of the samples shall be verified.

DP Rating / Categorization	Multiplier
High risk	3
Medium High risk	2
Medium risk	1.5
Low risk	1

- Out of total intra depository instructions to be verified, the percentage of on and off market instructions would be in the ratio of 1/3 and 2/3.
- DIS issuance sample size shall be 5% of the total samples verified for DIS.

3. Sample Sizes for inspection areas of 'Demat / Remat request' and 'Pledge / Unpledge'

- 5% of Demat / Remat request processed or 100 requests whichever is higher with a maximum cap of 500 such requests.
- 5% of Pledge / Unpledge request processed or 100 requests whichever is higher with a maximum cap of 500 such requests.

4. Sample Size for inspection area of 'Client Data Modification', 'Miscellaneous areas' and 'Other depository specific requirements'

- Base Sample Size
 - Address change = 50
 - Samples from Urban, Semi Urban and Rural Areas shall be equally represented if available.

- Nomination Change = 25
- Signature change = 100
- Addition / Deletion / Modification of POA = 100
- Freeze / Unfreeze = 50
- Bank Details Change = 100
- PAN modification = 100
- Account closure initiated by clients = 25
- Closure initiated by DPs = 25
- Demat rejection = 30
- Transactions = 25
- Change in e-mail Id = 25
- Change in mobile number = 25
- Change in SMS flag = 50
- Change in standing instruction flag = 50
- Transmission = 50% of total transmission cases
- Previous compliance = 100% of total samples
- Final sample size shall be arrived at after multiplying with the respective multiplier corresponding to the DP Risk rating / categorization as given below. In case the total number of instances / cases is less than the final sample size, then 100% of the samples shall be verified.

DP Rating/ Categorisation	Multiplier
High risk	3
Medium High risk	2
Medium risk	1.5
Low risk	1

5. Other Aspects

- A uniform Base sample size of 100 shall be adopted in case of all other activities. In case the total number of samples is less than 100, then 100% of the samples shall be verified.



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Annexure-III
DP Rating / Categorization Model

- I. Quantitative Score Calculation:** Specific weights shall be assigned to each area as decided by each depository. The Total Quantitative Score shall be the summation of all individual inspection scores.

Table: Indicative Table for calculation of Quantitative Score

Sr No	Inspection Areas	Weight (A)	B = No of Instances divided by Sample size	Inspection Score $IS = A * B$
A.	Inspection Area 1			
A.1.	Inspection Sub Area A 1			
A.2.	Inspection Sub Area 2			
	Total Score for <i>Inspection Area 1</i>			
B.	Inspection Area 2			
B.1.	Inspection Sub Area B 1			
B.2.	Inspection Sub Area B 2			
B.3.	Inspection Sub Area B 3			
	Total Score for <i>Inspection Area 2</i>			

Depositories shall include all inspection areas and sub areas, as per Annexure -I (List of Inspection Areas) of this circular, in the above model to arrive at the Quantitative Score for a DP.

Table: Indicative Table for calculation of Quantitative Score for Complaints Received

Sr No	Type and Nature of Complaint	Weight (A)	(Number of Complaints redressed) / Number of Complaints received)	Inspection Score $IS = A * B$
T	Complaints			
T.1	Complaint Sub Area 1			



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Sr No	Type and Nature of Complaint	Weight (A)	(Number of Complaints redressed) / Number of Complaints received)	Inspection Score IS = A*B
T.2	Complaint Sub Area 2			
Total Score for <i>Complaints</i>				

Quantitative Score = Σ (Scores of Inspection Areas including Total score for Complaints)

- II. Qualitative Score Calculation:** Specific weights shall be assigned to each area as decided by depository. The Total Qualitative Score shall be the summation of all area scores.

Sr. No	Qualitative Factors	Weight (A)	Point on the scale of 1 to 10. [10 being the Worst] (B)	Area score =(A) * (B)
1	Ownership and Governance			
2	IT security and Business Continuity			
3	Regulatory / procedural Compliance			
4	Automation of systems and processes for critical activities			
5	Quality of Management			
6	Financial Status / profitability of DPs			
7	Pending enquires / Penalties imposed by SEBI / Depositories on DP operations			
8	Complaints redressal			
9	Adverse findings of other activities (eg. Broking / custodian / banks etc)			
Total Qualitative Score = Σ (Area Scores)				

Following indicative factors shall be taken into account for arriving at above mentioned qualitative score:

(a) **Ownership and Governance**

1. Constitution of Board of DP – Number of promoter directors, Independent Directors etc.
2. Role of non-executive directors / Independent directors.

(b) **Quality of Management**

1. Experience, Fit and Proper and Qualification of Key Personnel.
2. Existence of Succession planning for top management especially in control functions.
3. Chinese walls between the activities in terms of manpower, resources etc.
4. Training and development of employees.
5. Adequacy of staff strength.
6. Compliance level of previous inspection observations/ directions of regulatory bodies

(c) **IT security and Business Continuity**

1. High Availability.
2. Appropriate Interconnected Architecture.
3. Appropriate Recovery Time Objective (RTO) and Recovery Point Objective (RPO) and near “Zero Data Loss”.
4. Periodic drills that simulate the real life disaster scenarios on a regular basis.
5. Technological glitches in the past period and remedies taken.
6. Information security.
7. Upgradation of technology

(d) **Financial Status / profitability of DPs**

1. The net-worth of the DPs (whether reducing or increasing from previous years)
2. Net Profits of DPs operations.

(e) **Complaints redressal**

1. Complaint redressal system
2. Percentage of complaints pending and resolved.

(f) **Other adverse findings**

1. Actions taken by Stock exchange and SEBI / RBI with respect to other activities
2. Actions taken by other depository.

III. Total Score = Qualitative Score + Quantitative Score

4.27 *Activity of Demat of warehouse receipts*¹³⁷

The aforesaid activity is not in compliance with Regulation 42 of SEBI (D&P) Regulations, 2018 and therefore depositories cannot carry out this activity. Depositories are therefore advised to take suitable steps in this regard, either to hive-off or to discontinue the activity.

4.28 *Voting rights in respect of securities held in pool account*¹³⁸

It was informed that the corporate benefits availed by the clearing member, clearing corporation and intermediaries shall be held in trust on behalf of beneficiary owners. Therefore, the clearing member, clearing corporation as well as the intermediaries cannot have voting rights in respect of securities held in the pool account.

4.29 *Risk Management Policy at the Depositories*¹³⁹

- i. The depositories are advised to establish a clear, comprehensive and well documented risk management framework which shall include the following:
 - a) an integrated and comprehensive view of risks to the depository including those emanating from participants, participants' clients and third parties to whom activities are outsourced etc.;
 - b) list out all relevant risks, including technological, legal, operational, custody and general business risks and the ways and means to address the same;
 - c) the systems, policies and procedures to identify, assess, monitor and manage the risks that arise in or are borne by the depository;
 - d) the depository's risk-tolerance policy;

¹³⁷ Reference: MRD/DP/SG-OW/202/2012 and MRD/DP/SG-OW/203/2012 dated January 4, 2012

¹³⁸ Reference: SMDRP/NSDL/26563/2001 dated April 10, 2001

¹³⁹ Reference: CIR/MRD/DP/1/2015 dated January 12, 2015

- e) responsibilities and accountability for risk decisions and decision making process in crises and emergencies.
- ii. The Depositories shall put in place mechanism to implement the Risk Management Framework through a Risk Management Committee which shall be headed by a Public Interest Director¹⁴⁰. The responsibilities of the said Committee shall include the following:
 - a) It shall meet periodically in order to continuously identify, evaluate and assess applicable risks in depository system through various sources such as investors complaints, inspections, system audit etc.;
 - b) It shall suggest measures to mitigate risk wherever applicable;
 - c) It shall monitor and assess the adequacy and effectiveness of the risk management framework and the system of internal control;
 - d) It shall review and update the risk management framework periodically.

The Board of the depository shall approve the Risk Management Framework and the Chief Risk Officer shall have access to the Board. The CRO shall be responsible, accountable and answerable to the board on overall risk management issues.

4.30 *Outsourcing by Depositories*¹⁴¹

Based on recommendations by DSRC, the depositories are advised to ensure the following:

- i. Depositories shall formulate and document an outsourcing policy duly approved by their Board based on the guidelines given below and the principles outlined in the SEBI circular CIR/MIRSD/24/2011 dated December 15, 2011.

Core activities of Depositories

- ii. Core and critical activities of depositories shall not be outsourced. The core activities of the depositories shall include but not limited to the following:
 - a) Processing of the applications for admission of Depository Participants (DPs), Issuers and Registrar & Transfer Agents (RTAs).
 - b) Facilitating Issuers/RTAs to execute Corporate Actions.

¹⁴⁰Reference: SEBI/HO/MRD/DOP2DSA2/CIR/P/2019/13 dated January 10, 2019

¹⁴¹ Reference: CIR/MRD/DP/19/2015 dated December 09, 2015



- c) Allotting ISINs for securities.
 - d) Maintenance and safekeeping of Beneficial Owner's data.
 - e) Execution of settlement and other incidental activities for pay-in/ pay-out of securities.
 - f) Execution of transfer of securities and other transactions like pledge, freeze, etc.
 - g) Provision of internet based facilities for access to demat accounts and submitting delivery instructions.
 - h) Ensuring continuous connectivity to DPs, RTAs, Clearing Corporations and other Depository.
 - i) Monitoring and redressal of investor grievances.
 - j) Inspection of DPs and RTAs.
 - k) Surveillance Functions.
 - l) Compliance Functions.
- iii. Core IT (Information Technology) support infrastructure / activities for running the core activities of depositories shall not be outsourced to the extent possible.

Due Diligence

- iv. The depositories shall conduct appropriate due diligence in selecting the third party to whom activity is proposed to be outsourced and ensure that only reputed entities having proven high delivery standards are selected.

Risk Management & Monitoring

- v. Depositories shall ensure that outsourced activities are further outsourced downstream only with the prior consent of the depository and with appropriate safeguards including proper legal documentation/ agreement.
- vi. Depositories shall ensure that risk impact analysis is undertaken before outsourcing any activity and appropriate risk mitigation measures like back up/ restoration system are in place.
- vii. An effective monitoring of the entities selected for outsourcing shall be done to ensure that there is check on the activities of outsourced entity. Depositories shall strive to automate their processes and workflows to the extent possible which shall enable real time monitoring of outsourced activities.

Audit

- viii. The outsourcing policy document shall act as a reference for audit of the outsourced activities. Audit of implementation of risk assessment and mitigation measures listed in the outsourcing policy document and outsourcing agreement/ service level agreements pertaining to IT systems shall be part of System Audit of Depositories.

4.31 *Cyber Security and Cyber Resilience framework of Depositories*¹⁴²

- i. SEBI as a member of IOSCO has adopted the Principles for Financial Market Infrastructures (PFMIs) laid down by CPMI-IOSCO and has issued guidance for implementation of the principles in the securities market.
- ii. Principle 17 of PFMIs that relates to management and mitigation of 'Operational risk' requires that systemically important market infrastructures institutions "*should identify the plausible sources of operational risk, both internal and external, and mitigate their impact through the use of appropriate systems, policies, procedures, and controls. Systems should be designed to ensure a high degree of security and operational reliability and should have adequate, scalable capacity. Business continuity management should aim for timely recovery of operations and fulfilment of the FMI's obligations, including in the event of a wide-scale or major disruption.*"
- iii. Depositories (hereafter referred as *Market Infrastructure Institutions* or *MIs*) are systemically important market infrastructure institutions. As part of the operational risk management, these MIs need to have robust cyber security framework to provide essential facilities and perform systemically critical functions relating to trading, clearing and settlement in securities market.
- iv. In view of the above, SEBI along with the Technical Advisory Committee (TAC) engaged in detailed discussions with MIs to develop necessary guidance in the area of cyber security and cyber resilience.
- v. Based on the consultations and recommendations of Technical Advisory Committee TAC, it has been decided to lay down the framework placed at Annexure below that MIs would be required to comply with regard to cyber security and cyber resilience.

¹⁴² Reference: Circular CIR/MRD/DP/13/2015 dated July 06, 2015



Annexure

1. Cyberattacks and threats attempt to compromise the Confidentiality, Integrity and Availability (CIA) of the computer systems, networks and databases.¹⁴³ Cyber security framework include measures, tools and processes that are intended to prevent cyberattacks and improve cyber resilience. Cyber Resilience is an organisation's ability to prepare and respond to a cyber attack and to continue operation during, and recover from, a cyber attack.

Governance

2. As part of the operational risk management framework to manage risk to systems, networks and databases from cyber attacks and threats, MII should formulate a comprehensive cyber security and cyber resilience policy document encompassing the framework mentioned hereunder. The policy document should be approved by the Board, and in case of deviations from the suggested framework, reasons for such deviations should also be provided in the policy document. The policy document should be reviewed by the MII's Board atleast annually with the view to strengthen and improve its cyber security and cyber resilience framework.

3. The cyber security and cyber resilience policy should include the following process to identify, assess, and manage cyber security risk associated with processes, information, networks and systems.

- a. 'Identify' critical IT assets and risks associated with such assets,
- b. 'Protect' assets by deploying suitable controls, tools and measures,
- c. 'Detect' incidents, anomalies and attacks through appropriate monitoring tools / processes,
- d. 'Respond' by taking immediate steps after identification of the incident, anomaly or attack,
- e. 'Recover' from incident through incident management, disaster recovery and business continuity framework.

4. The Cyber security policy should encompass the principles prescribed by National

¹⁴³Confidentiality refers to limiting access of systems and information to authorized users, Integrity is the assurance that the information is reliable and accurate, and Availability refers to guarantee of reliable access to the systems and information by authorized users



Critical Information Infrastructure Protection Centre (NCIIPC) of National Technical Research Organisation (NTRO), Government of India in the report titled 'Guidelines for Protection of National Critical Information Infrastructure' and subsequent revisions, if any, from time to time.

5. MII should also incorporate best practices from standards such as ISO 27001, ISO 27002, COBIT 5, etc., or their subsequent revisions, if any, from time to time.

6. MII should designate a senior official as Chief Information Security Officer (CISO) whose function would be to assess, identify and reduce cyber security risks, respond to incidents, establish appropriate standards and controls, and direct the establishment and implementation of processes and procedures as per the cyber security and resilience policy approved by the Board of the MII.

7. The Standing Committee on Technology¹⁴⁴ of the stock exchanges, clearing corporations and the depositories should on a quarterly basis review the implementation of the cyber security and resilience policy approved by their Boards, and such review should include review of their current IT and cyber security and resilience capabilities, set goals for a target level of cyber resilience, and establish a plan to improve and strengthen cyber security and cyber resilience.

8. MII should establish a reporting procedure to facilitate communication of unusual activities and events to CISO or to the senior management in a timely manner.

9. The aforementioned committee and the senior management of the MII, including the CISO, should periodically review instances of cyber attacks, if any, domestically and globally, and take steps to strengthen cyber security and cyber resilience framework.

10. MII should define responsibilities of its employees, outsourced staff, and employees of vendors, members or participants and other entities, who may have access or use systems / networks of MII, towards ensuring the goal of cyber security.

Identify

11. MII should identify critical assets based on their sensitivity and criticality for business

¹⁴⁴Refer SEBI Circulars SMD/POLICY/Cir-2/98 dated January 14, 1998
SEBI/HO/MRD/DOP2DSA2/CIR/P/2019/13 dated January 10, 2019

operations, services and data management. To this end, MII should maintain up-to-date inventory of its hardware and systems, software and information assets (internal and external), details of its network resources, connections to its network and data flows.

12. MII should accordingly identify cyber risks (threats and vulnerabilities) that it may face, along-with the likelihood of such threats and impact on the business and thereby, deploy controls commensurate to the criticality.

13. MII should also encourage its third-party providers, such as service providers, stock brokers, depository participants, etc. to have similar standards of Information Security.

Protection

Access Controls

14. No person by virtue of rank or position should have any intrinsic right to access confidential data, applications, system resources or facilities.

15. Any access to MII's systems, applications, networks, databases, etc., should be for a defined purpose and for a defined period. MII should grant access to IT systems, applications, databases and networks on a *need-to-use* basis and based on the *principle of least privilege*. Such access should be for the period when the access is required and should be authorized using strong authentication mechanisms.

16. MII should implement strong password controls for users' access to systems, applications, networks and databases. Password controls should include a change of password upon first log-on, minimum password length and history, password complexity as well as maximum validity period. The user credential data should be stored using strong and latest hashing algorithms.

17. MII should ensure that records of user access are uniquely identified and logged for audit and review purposes. Such logs should be maintained and stored in encrypted form for a time period not less than two (2) years.

18. MII should deploy additional controls and security measures to supervise staff with elevated system access entitlements (such as admin or privileged users). Such controls and measures should inter-alia include restricting the number of privileged users, periodic review of privileged users' activities, disallow privileged users from accessing systems logs in which

their activities are being captured, strong controls over remote access by privileged users, etc.

19. Account access lock policies after failure attempts should be implemented for all accounts.

20. Employees and outsourced staff such as employees of vendors or service providers, who may be given authorised access to the MII's critical systems, networks and other computer resources, should be subject to stringent supervision, monitoring and access restrictions.

21. Two-factor authentication at *log-in* should be implemented for all users that connect using online / internet facility.

22. MII should formulate an Internet access policy to monitor and regulate the use of internet and internet based services such as social media sites, cloud-based internet storage sites, etc.

23. Proper 'end of life' mechanism should be adopted to deactivate access privileges of users who are leaving the organization or whose access privileges have been withdrawn.

Physical security

24. Physical access to the critical systems should be restricted to minimum. Physical access of outsourced staff / visitors should be properly supervised by ensuring at the minimum that outsourced staff / visitors are accompanied at all times by authorised employees.

25. Physical access to the critical systems should be revoked immediately if the same is no longer required.

26. MII should ensure that the perimeter of the critical equipments room are physically secured and monitored by employing physical, human and procedural controls such as the use of security guards, CCTVs, card access systems, mantraps, bollards, etc. where appropriate.

Network Security Management

27. MII should establish baseline standards to facilitate consistent application of security configurations to operating systems, databases, network devices and enterprise mobile devices within the IT environment. The MII should conduct regular enforcement checks to ensure that

the baseline standards are applied uniformly.

28. MII should install network security devices, such as firewalls as well as intrusion detection and prevention systems, to protect its IT infrastructure from security exposures originating from internal and external sources.

29. Anti-virus software should be installed on servers and other computer systems. Updation of Anti-virus definition files and automatic anti-virus scanning should be done on a regular basis.

Security of Data

30. Data-in motion and Data-at-rest should be in encrypted form by using strong encryption methods such as Advanced Encryption Standard (AES), RSA, SHA-2, etc.

31. MII should implement measures to prevent unauthorised access or copying or transmission of data / information held in contractual or fiduciary capacity. It should be ensured that confidentiality of information is not compromised during the process of exchanging and transferring information with external parties.

32. The information security policy should also cover use of devices such as mobile phone, faxes, photocopiers, scanners, etc. that can be used for capturing and transmission of data.

33. MII should allow only authorized data storage devices through appropriate validation processes.

Hardening of Hardware and Software

34. Only a hardened and vetted hardware / software should be deployed by the MII. During the hardening process, MII should inter-alia ensure that default passwords are replaced with strong passwords and all unnecessary services are removed or disabled in equipments / software.

35. All open ports which are not in use or can potentially be used for exploitation of data should be blocked. Other open ports should be monitored and appropriate measures should be taken to secure the ports.

Application Security and Testing

36. MII should ensure that regression testing is undertaken before new or modified system is implemented. The scope of tests should cover business logic, security controls and system performance under various stress-load scenarios and recovery conditions.

Patch Management

37. MII should establish and ensure that the patch management procedures include the identification, categorization and prioritisation of security patches. An implementation timeframe for each category of security patches should be established to implement security patches in a timely manner.

38. MII should perform rigorous testing of security patches before deployment into the production environment so as to ensure that the application of patches do not impact other systems.

Disposal of systems and storage devices

39. MII should frame suitable policy for disposals of the storage media and systems. The data / information on such devices and systems should be removed by using methods viz. wiping / cleaning / overwrite, degauss and physical destruction, as applicable.

Vulnerability Assessment and Penetration Testing (VAPT)

40. MII should regularly conduct vulnerability assessment to detect security vulnerabilities in the IT environment. MII should also carry out periodic penetration tests, atleast once in a year, in order to conduct an in-depth evaluation of the security posture of the system through simulations of actual attacks on its systems and networks.

41. Remedial actions should be immediately taken to address gaps that are identified during vulnerability assessment and penetration testing.

42. In addition, MII should perform vulnerability scanning and conduct penetration testing prior to the commissioning of a new system which offers internet accessibility and open network interfaces.

Monitoring and Detection

43. MII should establish appropriate security monitoring systems and processes to facilitate



continuous monitoring of security events and timely detection of unauthorised or malicious activities, unauthorised changes, unauthorised access and unauthorised copying or transmission of data / information held in contractual or fiduciary capacity, by internal and external parties. The security logs of systems, applications and network devices should also be monitored for anomalies.

44. Further, to ensure high resilience, high availability and timely detection of attacks on systems and networks, MII should implement suitable mechanism to monitor capacity utilization of its critical systems and networks.

45. Suitable alerts should be generated in the event of detection of unauthorized or abnormal system activities, transmission errors or unusual online transactions.

Response and Recovery

46. Alerts generated from monitoring and detection systems should be suitably investigated, including impact and forensic analysis of such alerts, in order to determine activities that are to be performed to prevent expansion of such incident of cyber attack or breach, mitigate its effect and eradicate the incident.

47. The response and recovery plan of the MII should aim at timely restoration of systems affected by incidents of cyber attacks or breaches. The recovery plan should be in line with the Recovery Time Objective (RTO) and Recovery Point Objective (RPO) specified by SEBI.

48. The response plan should define responsibilities and actions to be performed by its employees and support / outsourced staff in the event of cyber attacks or breach of cyber security mechanism.

49. Any incident of loss or destruction of data or systems should be thoroughly analyzed and lessons learned from such incidents should be incorporated to strengthen the security mechanism and improve recovery planning and processes.

50. MII should also conduct suitable periodic drills to test the adequacy and effectiveness of response and recovery plan.

Sharing of information

51. Quarterly reports containing information on cyber attacks and threats experienced by



MII and measures taken to mitigate vulnerabilities, threats and attacks including information on bugs / vulnerabilities / threats that may be useful for other MIIs, should be submitted to SEBI.

52. Such details as are felt useful for sharing with other MIIs in masked and anonymous manner shall be shared using mechanism to be specified by SEBI from time to time.

Training

53. MII should conduct periodic training programs to enhance awareness level among the employees and outsourced staff, vendors, etc. on IT / Cyber security policy and standards. Special focus should be given to build awareness levels and skills of staff from non-technical disciplines.

54. The training program should be reviewed and updated to ensure that the contents of the program remain current and relevant.

Periodic Audit

55. The Terms of Reference for the System Audit of MII specified vide circular CIR/MRD/DMS/13/2011 dated November 29, 2011 shall be accordingly modified to include audit of implementation of the aforementioned areas.

Cyber Security Operation Center (C-SOC)¹⁴⁵

1. Recognizing the need for a robust Cyber Security and Cyber Resilience framework at Market Infrastructure Institutions (MIIs), i.e., Stock Exchanges, Clearing Corporations and Depositories, vide SEBI Circular CIR/MRD/DP/13/2015 dated July 06, 2015, a detailed regulatory framework on cyber security and cyber resilience was prescribed.
2. With the view to further strengthening the aforesaid framework, particularly in respect of monitoring of cyber threats and cyber resiliency, the matter was discussed with SEBI's Technical Advisory Committee (TAC), SEBI's High Powered Committee on Cyber Security (HPSC-CS) and the MIIs.

¹⁴⁵ Reference circular CIR/MRD/CSC/148/2018 dated December 07, 2018



3. Accordingly, it has been decided that MIIs shall have a Cyber Security Operation Center (C-SOC) that would be a 24x7x365 set-up manned by dedicated security analysts to identify, respond, recover and protect from cyber security incidents.
4. The C-SOC shall function in accordance with the framework specified in SEBI Circular CIR/MRD/DP/13/2015 dated July 06, 2015. Illustrative list of broad functions and objectives to be carried out by a C-SOC are mentioned hereunder:
 - 4.1. Prevention of cyber security incidents through proactive actions:
 - a) Continuous threat analysis,
 - b) Network and host scanning for vulnerabilities and breaches,
 - c) Countermeasure deployment coordination,
 - d) Deploy adequate and appropriate technology at the perimeter to prevent attacks originating from external environment and internal controls to manage insider threats. MIIs may implement necessary controls to achieve zero trust security model.
 - 4.2. Monitoring, detection, and analysis of potential intrusions / security incidents in real time and through historical trending on security-relevant data sources.
 - 4.3. Response to confirmed incidents, by coordinating resources and directing use of timely and appropriate countermeasures.
 - 4.4. Analysis of the intrusions / security incidents (including Forensic Analysis and Root Cause Analysis) and preservation of evidence.
 - 4.5. Providing situational awareness and reporting on cyber security status, incidents, and trends in adversary behavior to appropriate organizations including to CERT- In and NCIIPC.
 - 4.6. Engineer and operate network defense technologies such as Intrusion Detection Systems (IDSSes) and data collection / analysis systems.
 - 4.7. MIIs to adopt security automation and orchestration technologies in C-SOC to automate the incident identification, analysis and response as per the defined procedures.
5. Further to the above, the C-SOC of MII shall, at the minimum, undertake the following activities:
 - 5.1. In order to detect intrusions / security incidents in real time, the C-SOC should monitor and analyze on a 24x7x365 basis relevant logs of MII's network devices, logs of MII's systems, data traffic, suitable cyber intelligence (intel) feeds sourced from reliable vendors, inputs received from other MIIs, inputs received from external agencies such

as CERT-In, etc. The cyber intelligence (intel) feeds may include cyber news feeds, signature updates, incident reports, threat briefs, and vulnerability alerts.

- 5.2. To this end, appropriate alert mechanisms should be implemented including a comprehensive dashboard, tracking of key security metrics and provide for cyber threat scorecards.
 - 5.3. The C-SOC should conduct continuous assessment of the threat landscape faced by the MII including undertaking periodic VAPT (Vulnerability Assessment and Penetration Testing).
 - 5.4. The C-SOC should have the ability to perform Root Cause Analysis, Incident Investigation, Forensic Analysis, Malware Reverse Engineering, etc. to determine the nature of the attack and corrective and/or preventive actions to be taken thereof.
 - 5.5. The C-SOC should conduct periodic (at the minimum quarterly) cyber attack simulation to aid in developing cyber resiliency measures. The C-SOC should develop and document mechanisms and standard operating procedures to recover from the cyber-attacks within the stipulated RTO of the MII. The C-SOC should also document various scenarios and standard operating procedures for resuming operations from Disaster Recovery (DR) site of MII.
 - 5.6. The C-SOC should conduct periodic awareness and training programs at the MII and for its members / participants / intermediaries with regard to cyber security, situational awareness and social engineering.
 - 5.7. The C-SOC should be capable to prevent attacks similar to those already faced. The C-SOC should also deploy multiple honey pot services which are dynamic in characteristics to avoid being detected as honey pot by attackers.
6. As building an effective C-SOC requires appropriate mix of right people, suitable security products (Technology), and well-defined processes and procedures (Processes), an indicative list of areas that MIIs should consider while designing and implementing a C-SOC are as follows:
- 6.1. The MII shall ensure that the governance and reporting structure of the C-SOC is commensurate with the risk and threat landscape of the MII. The C-SOC shall be headed by the Chief Information Security Officer (CISO) of the MII. The CISO shall be designated as a Key Managerial Personnel (KMP) and relevant provisions relating to KMPs in the SEBI Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) Regulations, 2012 and the subsequent circulars issued by SEBI relating to KMPs, shall apply to the CISO.



- 6.2. While the CISO is expected to work closely with various departments of MIIs, including MII's Network team, Cyber Security team and Information Technology (IT) team, etc., the reporting of CISO shall be directly to the MD & CEO of the MII.
- 6.3. The roles and responsibilities of CISO may be drawn from Ministry of Electronics and IT notification No. 6(12)/2017-PDP-CERT-In dated March 14, 2017.
- 6.4. The C-SOC should deploy appropriate technology tools of adequate capacity to cater to its requirements. Such tools shall, at the minimum, include SecurityAnalytics Engine, Malware detection tools, Network and User Traffic Monitoring and Behavior Analysis systems, Predictive Threat Modelling tools, Tools for monitoring of System parameters for critical systems / servers, Deep Packet Inspection tools, Forensic Analysis tools, etc.
- 6.5. Each MII is advised to formulate a Cyber Crisis Management Plan (CCMP) based on its architecture deployed, threats faced and nature of operations. The CCMP should define the various cyber events, incidents and crisis faced by the MII, the extant cyber threat landscape, the cyber resilience envisaged, incident prevention, cyber crisis recognition, mitigation and management plan. The CCMP should be approved by the respective Standing Committee on Technology / IT- Strategy Committee of the MIIs and the governing board of the MII. The CCMP should also be reviewed and updated annually.
- 6.6. The C-SOC should have well-defined and documented processes for monitoring of its systems and networks, analysis of cyber security threats and potential intrusions / security incidents, usage of appropriate technology tools deployed by C-SOC, classification of threats and attacks, escalation hierarchy of incidents, response to threats and breaches, and reporting (internal and external) of the incidents.
- 6.7. The C-SOC should employ domain experts in the field of cyber security and resilience, network security, data security, end-point security, etc.
- 6.8. The MIIs are also advised to build a contingent C-SOC at their respective DR sites with identical capabilities w.r.t. the primary C-SOC in line with the SEBI Circular CIR/MRD/DMS/12/2012 dated April 13, 2012 read with SEBI Circular CIR/MRD/DMS/17/2012 dated June 22, 2012. Additionally, the MIIs should perform monthly live-operations from their DR-C-SOC.
- 6.9. The C-SOC should document the cases and escalation matrices for declaring a disaster.
7. In view of the feedback received from MIIs, it has been decided that MIIs may choose any of the following models to set-up their C-SOC:
 - i. MII's own C-SOC manned primarily by its internal staff,

- ii. MII's own C-SOC, staffed by a service provider, but supervised by a full time staff of the MII. (Refer to 7.3)
 - iii. C-SOC that may be shared by the MII with its group entities (that are also SEBI recognized MIIs),
 - iv. C-SOC that may be shared by the MII with other SEBI recognized MII(s).
- 7.1. The responsibility of cyber security of an MII, adherence to business continuity and recovery objectives, etc. should lie with the respective MII, irrespective of the model adopted for C-SOC.
- 7.2. The respective risk committee(s) of the MII should evaluate the risks of outsourcing the respective activity.
- 7.3. The MII may outsource C-SOC activities in line with the guidelines as given in Annexure-A.
8. A report on the functioning of the C-SOC, including details of cyber-attacks faced by the MII, major cyber events warded off by the MII, cyber security breaches, data breaches should be placed on a quarterly basis before the board of the MII.
9. The system auditor of the MII shall audit the implementation of the aforesaid guidance in the annual system audit of the MII. The Scope and/or Terms of Reference (ToR) of the annual system would accordingly be modified to include audit of the implementation of the aforementioned areas.
10. Further, in continuation to the requirement specified at para 52 of the Annexure A to the aforementioned SEBI Circular dated July 06, 2015, the C-SOC shall share relevant alerts and attack information with members / participants / intermediaries of the MII, other MIIs, external cyber response agencies such as CERT-In, and SEBI.
11. MIIs are directed to take necessary steps to put in place appropriate systems and processes for implementation of the circular, including necessary amendments to the relevant bye-laws, rules and regulations, if any, within six months from the date of the circular. In case wherein a MII currently has a C-SOC set-up that is different from that mentioned at para 7(i) - 7(iv), such MIIs are directed to adopt and transit to one of the models mentioned at para 7(i) - 7(iv) within a period of one year from the date of issuance of this circular.

Annexure A

1. Level of support definitions for outsourcing/in-house are as follows:

1.1. Security Analyst Level 1 (L1): This function may be mostly outsourced

- a) Monitoring SIEM Solution console for identifying the security events generated by the log sources integrated with SIEM tools.
- b) Identification of security events that are false +ve before qualifying event as an incident.
- c) Identify the exceptions which are identified as an event (e.g. VA scanning performed by SEBI appointed 3rd party which may be identified as port scanning attack).
- d) Perform first level event analysis before qualifying the incidents.
- e) Qualifying the event as an incident using Knowledgebase.
- f) Escalating exceptions & Events to L2 level.
- g) Log Incident tickets in service management tool and assign it to the respective team.
- h) Follow-up for the closure of the incident tickets generated.

1.2. Security Analyst Level 2 (L2): Combination of Outsource / In-House

- (a) Exception Analysis.
- (b) Analysis of extended events.
- (c) Confirmation of False +ve & update Knowledge Base.
- (d) Qualify Incident & provide mitigation suggestions.
- (e) Escalate incident to next level.
- (f) Update /configuration correlation rules after approval.

1.3. Security Analyst Level 3 (L3): Combination of Outsource / In-House

- (a) Analysis of escalated Incidents.
- (b) Define correlation rules.
- (c) Analysis of impact on SIEM over all correlation rules and operations for the correlation rules suggested by Level 2 Analyst.
- (d) Approve correlation rules after the impact analysis.
- (e) Perform impact analysis before deployment of correlation rules.
- (f) Perform impact analysis for update and upgrade of SIEM & Advance security solutions components.
- (g) Define Mitigation suggestions for newly identified incidents.
- (h) Approve the reports before sharing with others.

1.4. SOC Manager (L4): In-house



- (a) Lead and manage Security Operations Centre.
- (b) Provide strategic directions to SOC team and organization for security posture improvements.
- (c) To identify key contacts for incident escalation and change management activities.
- (d) Ensure compliance to SLA.
- (e) Ensure process adherence and process improvisation to achieve operational objectives.
- (f) Revise and develop processes to strengthen the current Security Operations.
- (g) Responsible for team and vendor management.
- (h) Responsible for overall use of resources and initiation of corrective action where required for Security Operations Center.
- (i) Escalate to the other IT Infra. Management teams or application maintenance teams, as necessary.
- (j) Overall responsibility for delivery of in scope activities as a part of this engagement.
- (k) Point of contact for problem escalation and reporting.

1.5. Security Subject Matter Expert for Security technologies: In-house with reliance on external expertise

- (a) Subject Matter Expert (SME) for SIEM and Advance security solutions.
- (b) Assist you with troubleshooting steps to be performed by you in order to re-establish connectivity between the SIEM System and SEBI's locations.
- (c) Provide software-level management for the SIEM System components;
- (d) Verify data collection and log continuity;
- (e) Manage user access including user and group permissions updates;
- (f) Review application performance, capacity, and availability make recommendations as appropriate;
- (g) Review SIEM System disk space usage;
- (h) Verify time synchronization among SIEM System components;
- (i) Perform archival management and retrieval per change management process;
- (j) Provide problem determination / problem source identification for the SIEM System, consisting of creating tickets & tracking progress of Open tickets
- (k) Managing tickets to resolution / closure, in accordance with the processes as defined in the Integrated and Transition vendor announcements & manage SIEM System update alerts;



- (l) Install application patches and software updates in order to improve performance, or enable additional functionality

Illustrative Training Requirements Security Analyst Level 1 (L1):

- 1) SEC401: Security Essentials Bootcamp Style <https://www.sans.org/event/cyber-defence-canberra-2018/course/security-essentials-bootcamp-style>
- 2) SEC301: Introduction to Cyber Security <https://www.sans.org/course/introduction-cyber-security>

Security Analyst Level 2 (L2):

- 1) SEC542: Web App Penetration Testing and Ethical Hacking
<https://www.sans.org/event/cyber-defence-canberra-2018/course/web-app-penetration-testing-ethical-hacking>
- 2) SEC566: Implementing and Auditing the Critical Security Controls -In-Depth
<https://www.sans.org/private-training/course/implementing-auditing-critical-security-controls>
- 3) SEC575: Mobile Device Security and Ethical Hacking <https://www.sans.org/private-training/course/mobile-device-security-ethical-hacking>

Security Analyst Level 3 (L3):

- 1) SEC504: Hacker Tools, Techniques,Exploits, and Incident Handling
<https://www.sans.org/event/cyber-defence-canberra-2018/course/hacker-techniques-exploits-incident-handling>
- 2) FOR508: Advanced Digital Forensics, Incident Response, and Threat Hunting
<https://www.sans.org/event/digital-forensics-summit-2018/course/advanced-incident-response-threat-hunting-training>
- 3) SEC501: Advanced Security Essentials -Enterprise Defender
<https://www.sans.org/private-training/course/advanced-security-essentials-enterprise-defender>
- 4) MGT414: SANS Training Program for CISSP® Certification
<https://www.sans.org/course/sans-plus-s-training-program-cissp-certification-exam>

SOC Manager (L4):

- 1) Cyber Security Specialist



<http://www.leaderquestonline.com/it-career-training/cybersecurity-specialist/>

- 2) Managing Security Operations: Detection, Response, and Intelligence
<https://www.sans.org/event/rocky-mountain-2018/course/managing-security-operations-detection-response-and-intelligence>
- 3) SIEM with Tactical Analytics
<https://www.sans.org/private-training/course/siem-with-tactical-analytics>
- 4) SEC511: Continuous Monitoring and Security Operations
<https://www.sans.org/course/continuous-monitoring-security-operations>
- 5) SEC599: Defeating Advanced Adversaries -Implementing Kill ChainDefenses
<https://www.sans.org/course/defeating-advanced-adversaries-kill-chain-defenses>

4.32 *Recommendations of high powered steering Committee¹⁴⁶:*

- 4.32.1 High Powered Steering Committee: Cyber Security (Committee) in its meeting dated February 21, 2019 has recommended the following actions to be undertaken by all MIIs in the context of their information technology infrastructure:
- i) No applications should be introduced in the production environment without adequate testing. Certificates on testing of software should be mandatorily provided.
 - ii) MIIs formulate its own system specific SOPs to implement SEBI guidelines. Further, MIIs should prepare and maintain a control document elaborating the implementation and methodology of the SOPs.

With regards to comprehensive review of cyber security at MIIs, the committee recommended that:

- iii) The review should have same time frame across all MIIs. The time frame of the review should be from April to September and October to March of the specific financial year. Organizations with review time frame not in sync with the prescribed time frame should make necessary changes.
- iv) The audit report to include time required for implementation of observation and business impact of the observations.
- v) The audit report should mention all the control areas prescribed in the scope of audit
- vi) The audit process and submission of report should strictly follow the time lines provided in the SEBI letter dated February 21, 2018.

4.32.2 MIIs are advised to implement the same.

¹⁴⁶ SEBI Letter number SEBI/HO/MRD/CSC/OW/P/2019/10055 dated April 22, 2019

4.33 Database for Distinctive Number (DN) of Shares¹⁴⁷

1. Share capital reconciliation of the entire issued capital of the company by the issuer or its agent is a mandatory requirement under Regulation 75 of the SEBI (Depositories & Participants) Regulations, 2018.
2. In order to ensure centralised record of all securities, including both physical and dematerialised shares, issued by the company and its reconciliation thereof, the Depositories are advised to create and maintain a database of distinctive numbers (DN) of equity shares of listed companies with details of DN in respect of all physical shares and overall DN range for dematerialised shares.
3. The DN database shall make available, information in respect of issued capital, such as DN Range, number of equity shares issued, name of stock exchange where the shares are listed, date of in-principle listing / final trading approval / dealing permission, shares held in physical or demat form, date of allotment, shares dematerialized under temporary (frozen) ISIN (International Securities Identification Number) or Permanent (active) ISIN etc., at one place.
4. Based on consultations with the Depositories and Stock Exchanges, the following guidelines are given for the operationalisation of the DN database -

4.1. Instructions to the Depositories

- 4.1.1. The depositories shall create and maintain a database to capture DN in respect of all physical equity shares and overall DN range for dematerialised equity shares issued by listed companies.
- 4.1.2. The depositories shall provide an interface to the Stock Exchange, Issuers/RTAs for online updation and to the DPs for online enquiry. The same shall be released for live updates latest by September 30, 2015.
- 4.1.3. The database shall include the following information -

¹⁴⁷ Reference: Circular CIR/MRD/DP/10/2015 dated June 05, 2015

i. Distinctive Numbers (From)	vii. Trading start date
ii. Distinctive Numbers (To)	viii. Physical/demat
iii. Number of Equity shares	ix. Date of allotment and date of issue (date of credit to BO account)
iv. Name of stock exchange	x. ISIN along with name of company
v. Date of in-principle listing approval	xi. Nature of ISIN [Temporary (Frozen) or Permanent (Active)]
vi. Date of final trading approval / dealing permission	

4.1.4. The depositories shall ensure that the database maintained by them is continuously updated and synchronised. The initial synchronisation may be in batch mode and shall thereafter shift to online mode.

4.1.5. The Depositories, in co-ordination with the Stock Exchanges, having nationwide trading terminals and the Issuers/RTAs, shall facilitate the process of populating the database with details of equity share capital and the corresponding DN information as on September 30, 2015.

4.2. Instructions to the Stock Exchanges

4.2.1. The Stock Exchanges shall provide the following information of all companies listed on the concerned Stock Exchange as on September 30, 2015 -

- i. Total number of equity shares (A) for which final trading approval / dealing permission has been granted.
- ii. Total number of equity shares (B) for which in-principle listing approval has been granted but final trading approval / dealing permission is pending.
- iii. Total number of equity shares comprising the paid-up capital i.e. (A+B).

4.2.2. The Stock Exchanges shall use the interface provided by the Depositories for the following -

- i. In respect of companies where the final trading approval / dealing permission was awaited as on September 30, 2015, consequent to update of DN information by Issuers/RTAs, the stock exchange shall validate the DN information updated by the Issuer/RTA and update the date of 'in-principle' listing approval, date of final trading approval / dealing permission and trading start date [as per point nos. (v), (vi) and (vii) of 4.1.3], immediately upon granting of such permissions.
- ii. In respect of further issue of shares by listed companies, consequent to update of DN information by Issuers/RTAs, the stock exchange shall validate the DN information updated by the Issuer/RTA and update the date of 'in-principle' listing approval, date of final trading approval / dealing permission and trading start date [as per point nos. (v), (vi) and (vii) of 4.1.3], immediately upon granting of such permissions.
- iii. In respect of companies coming out with initial public offer or new listings on stock exchanges, the stock exchange shall update the DN database with the total number of equity shares for which final trading approval / dealing permission has been granted.
- iv. In respect of companies whose capital is changed/ altered for any reason other than further issuance of shares such as buy-back of shares, forfeiture of shares, capital reduction, etc., the stock exchange shall confirm such change/ alteration in the capital as updated by the Issuer/RTA in the DN database.

4.2.3. In case the DN data on listed shares as per the records of Issuers/RTAs does not match with records of the Stock Exchanges, the Stock Exchanges shall coordinate with the Issuer/RTA to reconcile such differences.

4.3. Instructions to the Issuers/RTAs

4.3.1. Issuers/RTAs shall use the interface provided by the Depositories for the following -



- i. To update DN information in respect of all physical share capital and overall DN range for dematerialised share capital for all listed companies.
- ii. Updating the fields (i)-(iv), (viii) and (ix) given in para 4.1.3, on a continuous basis for subsequent changes including changes in case of further issue, fresh issuance / new listing and other change / alteration in capital (such as buy-back of shares, forfeiture of shares, capital reduction, etc.).
- iii. Capturing / updating the DN information on a continuous basis while processing, dematerialisation / rematerialisation requests confirmation, executing corporate action, etc.

4.3.2. Issuers/RTAs shall take all necessary steps to update the DN database. If there is mismatch in the DN information with the data provided / updated by the Stock Exchanges in the DN database, the Issuer/RTA shall take steps to match the records and update the same latest by December 31, 2015.

4.3.3. Failure by the Issuers/RTAs to ensure reconciliation of the records as required in terms of para above shall attract appropriate actions under the extant laws.

4.4. Instructions to the DPs

4.4.1. The DPs shall use the interface provided by the Depositories to check the DNs of certificates of equity shares submitted for dematerialisation and ensure that appropriate ISIN is filled in Dematerialisation Request Form, as applicable, while processing request for dematerialisation.

5. Despite follow-ups by Depositories, certain companies were yet to comply with the above provisions. Hence, in order to protect the interest of investors the following is directed¹⁴⁸:

5.1 Action against non-compliant companies

5.1.1 With effect from August 01, 2019:-

- i. The depositories shall freeze all the securities held by the promoters and directors of the listed companies that are not in compliance with the above provisions of SEBI circular no. CIR/MRD/DP/10/2015 dated June 05, 2015 [i.e. Beneficiary Owner a/c level freezing].

¹⁴⁸Reference: SEBI/HO/MRD/DOP2DSA2/CIR/P/2019/87 dated August 01, 2019

- ii. The depositories shall not effect any transfer, by way of sale, pledge, etc., of any of the securities, held by the promoters and directors of such non-compliant companies.
- iii. The depositories shall freeze all related corporate benefits on the Beneficiary Owner a/c frozen as above.
- iv. The depositories shall retain the freeze on the securities held by promoters and directors of non-compliant companies till such time the company complies with the directions provided in SEBI circular dated June 05, 2015.

Depositories are advised to keep in abeyance the action mentioned above in specific cases where moratorium on enforcement proceedings has been provided for under any Act, Court/ Tribunal Orders, etc.

5.1.2 The names of companies that are not in compliance with aforementioned circular shall be prominently disseminated on the website of the exchanges / depositories, indicating that the concerned companies have not complied with SEBI circular no. CIR/MRD/DP/10/2015 dated June 05, 2015.

5.1.3 Prior to revocation of suspension of trading of shares of any company, exchanges shall ensure compliance by the company with SEBI circular no. CIR/MRD/DP/10/2015 dated June 05, 2015 and ensure availability of updated details of company's promoters (especially their PAN) and directors (especially their PAN and DIN), apart from ensuring compliance with other applicable regulatory norms.

- 5.2 The concerned Stock Exchanges and Depositories shall coordinate with each other and take necessary steps to implement these provisions.
- 5.3 SEBI may also take any other appropriate action(s) against the concerned listed companies and its promoters/directors for non-compliance with SEBI circular no. CIR/MRD/DP/10/2015 dated June 05, 2015.

4.34 Ticker on Website - For Investor awareness¹⁴⁹

In order to create wider awareness about the same, Depositories and Depository Participants are advised to run the following ticker on their websites:

¹⁴⁹ Reference: Email on "Ticker on Website - For Investor awareness" dated November 05, 2015



"No need to issue cheques by investors while subscribing to IPO. Just write the bank account number and sign in the application form to authorise your bank to make payment in case of allotment. No worries for refund as the money remains in investor's account."

Depositories are advised to communicate the above to their depository participants and ensure its implementation.

- 4.35 Separate mobile number/ email id for the clients of Depository Participants (DPs)¹⁵⁰**
- i. It has been observed that DPs do not have the procedure to check that separate mobile number/ email id is uploaded for each client.
 - ii. In view of the same Depositories are advised to instruct their participants to ensure that separate mobile number/E-mail address is uploaded for each client. However, under exceptional circumstances, the participants may, at the specific written request of a client, upload the same mobile number/E-mail address for more than one client provided such clients belong to one family. 'Family' for this purpose would mean self, spouse, dependent children and dependent parents.

4.36 Investor Protection Fund (IPF) of Depositories¹⁵¹

1. The Depository System Review Committee (DSRC) had examined various aspects of the depository IPF including utilization and investment policy of IPF and quantum of funds to be transferred to IPF. The Expert Committee on Clearing Corporations also deliberated the issue with regard to quantum of funds to be transferred by the Depositories to their IPF.
2. SEBI (Depositories and Participants) (Amendment) Regulations, 2012 require every depository to establish and maintain an Investor Protection Fund (IPF). Pursuant to the aforesaid committee recommendations, the SEBI (Depositories and Participants) Regulations were amended mandating the depositories to credit five per cent or such percentage as may be specified by the Board, of its profits from depository operations every year to the IPF.

¹⁵⁰ Email on Separate mobile number/ email id for the clients of Depository Participants (DPs) dated January 16, 2015.

¹⁵¹Reference: Circular SEBI/HO/MRD/DP/CIR/P/2016/58 dated June 07, 2016



3. Based on recommendations of DSRC and Expert Committee on Clearing Corporations, the following guidelines are being issued with regard to IPF of the Depositories.

Utilization of the IPF

4. The IPF may be utilized for the following purposes with a focus on depository related services:
 - i. Promotion of investor education and investor awareness programmes through seminars, lectures, workshops, publications (print and electronic media), training programmes etc. aimed at enhancing securities market literacy and promoting retail participation in securities market.
 - ii. To aid, assist, subsidise, support, promote and foster research activities for promotion/ development of the securities market.
 - iii. To utilize the fund for supporting initiatives of Depository Participants for promotion of investor education and investor awareness programmes.
 - iv. To utilize the fund in any other manner as may be prescribed/ permitted by SEBI in the interest of investors.
5. Depositories shall frame their internal guidelines on utilisation of the funds in accordance with the aforementioned objectives and post approval of their board, submit the same to SEBI within 30 days from the date of this circular. Depositories shall also keep SEBI informed of any subsequent changes in internal guidelines with regard to utilization of IPF.

Constitution and Management of the IPF

6. The IPF shall be administered by way of a Trust created for the purpose.
 - i. The IPF Trust shall consist of atleast one Public Interest Director (PID) of the depository, one person of eminence from an academic institution from the field of finance / an expert in the field of investor education / a representative from the registered investor associations recognized by SEBI and Managing Director of the Depository.
 - ii. The Depository shall provide the secretariat for the IPF Trust.
 - iii. The Depository shall ensure that the funds in the IPF are kept in a separate account designated for this purpose and that the IPF is immune from any liabilities of the Depository.

Contribution to the IPF

7. The following contributions shall be made by the Depository to the IPF.
 - i. 5% of their profits from Depository operations every year. The depositaries shall transfer the amount with effect from the Financial Year 2012-13 as specified in the SEBI (Depositories and Participants) (Amendment) Regulations, 2016.
 - ii. All fines and penalties recovered from Depository Participants and other users including Clearing Member pool account penalty as specified in SEBI circular no. SMDRP/Policy/Cir-05/2001 dated February 01, 2001.
 - iii. Interest or Income received out of any investments made from the IPF.
 - iv. Funds lying to the credit of IPR (Investor Protection Reserve) / BOPF (Beneficial Owners Protection Fund) of the Depository or any other such fund / reserve of the Depository shall be transferred to IPF.
 - v. Any other sums as may be prescribed by SEBI from time to time

Investments of Fund

8. Funds of the Trust shall be invested in instruments such as Central Government securities, fixed deposits of scheduled banks and any such instruments which are allowed as per the investment policy approved by the Board of the Depository. The investment policy shall be devised with an objective of capital protection along with highest degree of safety and least market risk.
9. The balance available in the IPF as at the end of the month and the amount utilised during the month including the manner of utilization shall be reported in the Monthly Development Report of the Depository.

4.37 Enhanced Supervision of Depository Participant¹⁵²

1. Uniform nomenclature to be followed by stock brokers for Naming/Tagging of Bank and Demat Accounts and the reporting of such accounts to the Depositories.
 - 1.1. Bank accounts and Demat accounts maintained by all stock brokers shall have appropriate nomenclature to reflect the purpose for which those bank/demat accounts are being maintained.
 - 1.2. The nomenclature for bank accounts and demat accounts to be followed is given as under:

¹⁵²Reference: Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.



- 1.2.1. Bank account(s) which hold clients' funds shall be named as "Name of Stock Broker - Client Account".
- 1.2.2. Deleted¹⁵³
- 1.2.3. Demat account(s) which hold clients' securities shall be named as "Name of Stock Broker- Client Account".
- 1.2.4. Deleted¹⁵⁴
- 1.2.5. Demat account(s), maintained by the stock broker for depositing securities collateral with the clearing corporation, shall be named as "Name of Stock Broker-Collateral Account".
- 1.2.6. Demat account(s) held for the purpose of settlement would be named as "Name of Stock Broker - Pool account".
- 1.2.7. Bank account(s) held for the purpose of settlement would be named as "Name of Stock Broker - Settlement Account"

Accordingly naming proprietary bank/demat accounts of the stock broker as 'Stock Broker-Proprietary Account' is voluntary. It is however clarified that bank/demat account which do not fall under the Clauses 1.2.1,1.2.3, 1.2.5 , 1.2.6 and 1.2.7 would be deemed to be proprietary.¹⁵⁵

2. Imposition of uniform penal action on depository participants by the Depositories in the event of non-compliance with specified requirements.

Monitoring criteria for Depository Participants

- a. Failure to furnish Networth certificate to Depository for year ending March 31st by September 30th.
- b. Failure to furnish Internal Audit report to Depository for half year ending September 30th by November 15th and half year ending March 31st by May 15th.
- c. Failure to co-operate with the Depository for conducting inspection by not submitting all the information/records sought within 45 days from the due date specified in the letter of intimation.

¹⁵³ Paragraph 1.2.2 in circular number SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 which read as "*Bank account(s) which hold own funds of the stock broker shall be named as "Name of Stock Broker - Proprietary Account"*" deleted in view of CIR/HO/MIRSD/MIRSD2/CIR/P/2017/64 dated June 22,2017

¹⁵⁴ Paragraph 1.2.4 in circular number SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 which read as "*Demat account(s), which hold own securities of the stock broker, shall be named as "Name of Stock Broker-Proprietary Account"*" deleted in view of CIR/HO/MIRSD/MIRSD2/CIR/P/2017/64 dated June 22,2017

¹⁵⁵ Reference circular number CIR/HO/MIRSD/MIRSD2/CIR/P/2017/64 dated June 22,2017



- d. Failure to submit data for the half yearly Risk Based Supervision within the time specified by Depositories.
- e. Failure to furnish half yearly compliance certificate/report to Depository for half year ending June 30th by July 30th and half year ending December 31st by January 31st.
- f. Failure to furnish monthly Investor grievance report by 10th day of next month.
- g. In case depository participant shares incomplete/wrong data or fails to submit data on time.
- h. Failure to submit financial statements as per timeline prescribed by the Depositories.

4.38

Amendment pursuant to comprehensive review of Investor Grievance Redressal Mechanism¹⁵⁶

In order to enhance the effectiveness of grievance redressal mechanism at Market Infrastructure Institutions (MIIs), SEBI has comprehensively reviewed the existing framework in consultation with the Stock Exchanges and Depositories (inter alia, issues relating to strengthening of arbitration mechanism and investor protection mechanism).

Based on the aforesaid review, it has been decided to revamp the grievance redressal mechanism at Stock Exchanges and Depositories (wherever applicable), as follows:-

1. InvestorGrievance Resolution Panel (IGRP)/ Arbitration Mechanism

The existing IGRP/ arbitration mechanism to be modified as follows:

A. Public dissemination of profiles of arbitrators

In order to enhance transparency and also to provide choice to parties, Stock Exchanges/ Depositories shall disseminate information w.r.t. brief profile, qualification, areas of experience/ expertise, number of arbitration matters handled, pre-arbitration experience, etc. of the arbitrators on their website.

B. Submission of documents in soft copies

In order to assist the arbitrators in pronouncing comprehensive and speedy awards, Stock Exchanges/ Depositories shall make necessary arrangements in terms of hardware viz., computer, scanner, printer, etc. and required software's at exchange offices/ Investor Service Centers (ISCs) to facilitate the clients to type/ convert their documents into electronic format/ soft copy. Such electronic format/ soft copies shall be provided to the arbitrators along with original submissions in physical copies.

¹⁵⁶Reference Circular SEBI/HO/DMS/ CIR/P/2017/15 dated February 23, 2017



C. Review and Training of arbitrators

Investor Service Committee of the Stock Exchanges/ Depositories shall review the performance of the arbitrators annually and submit the review report to the Board of the Stock Exchange/ Depository. Training need of the arbitrators will be catered by National Institute of Securities Markets (NISM). Cost of training of arbitrators may be incurred from ISF.

D. Mechanism for implementation of award

Stock Exchanges/ Depositories shall create a common database of defaulting clients accessible to members/ depository participants across the Stock Exchanges/ Depositories.

For this purpose, a client may be identified as defaulter if the client does not pay the award amount to the member/ depository participant as directed in the IGRP/ arbitration/ appellate arbitration order and also does not appeal at the next level of redressal mechanism within the timelines prescribed by SEBI or file an application to court to set aside such order in accordance with Section 34 of the Arbitration and Conciliation Act, 1996 (in case of aggrieved by arbitration/ appellate award).

E. Empanelment of arbitrators and segregation of arbitration and appellate arbitration panel

There shall be separate panels for arbitration and appellate arbitration. Further, for appellate arbitration, at least one member of the panel should be a Retired Judge.

Stock Exchanges/ Depositories shall obtain prior approval of SEBI before empanelment of arbitrators/ appellate arbitrators.

F. Empanelment of IGRP members

Stock Exchanges shall empanel IGRP members and no arbitrator/ appellate arbitrator shall be empaneled as IGRP member.

G. Revision in professional fee of arbitrators

The arbitrator fee shall be upwardly revised to Rs.18,000/- (Rs. Eighteen thousand) per case. Consequent to this upward revision, the additional expenses attributable to a client over and above the fee structure specified in point J, shall



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be borne by the client (wherever applicable) and Stock Exchange/ Depository equally. The total expense attributable to the member/ depository participant has to be borne by the concerned member/ depository participant.

H. Place of arbitration/ appellate arbitration

In case award amount is more than Rs. 50 lakh (Rs. Fifty lakh), the next level of proceedings (arbitration or appellate arbitration) may take place at the nearest metro city, if desired by any of the party involved. The additional cost for arbitration, if any, to be borne by the appealing party.

I. Arbitration/ appellate arbitration award

In order to safeguard the interest of the parties involved in arbitration and to ensure speedy implementation of the arbitration award, the rate of interest on the award passed by arbitrators shall be in compliance with Arbitration and Conciliation (Amendment) Act, 2015.

J. Speeding up grievance redressal mechanism

- (i) In order to have faster implementation of award and to discourage delayed filling of arbitrations by members, the fee structure (exclusive of statutory dues - stamp duty, service tax, etc.) for filling arbitration reference shall be as follows:-

Amount of Claim / Counter Claim, whichever is higher (Rs.)	If claim is filed within six months from the date of dispute	If claim is filed after six months from the date of dispute or after one month from the date of IGRP order, whichever is later	If the claim is filed beyond the timeline prescribed in column 3, (only for member)
≤ 10,00,000	1.3% subject to a minimum of Rs.10,000	3.9% subject to a minimum of Rs.30,000	Additional fee of Rs. 3,000/- per month over and above fee prescribed in



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			column 3
> 10,00,000 - 25,00,000 ≤	Rs. 13,000 plus 0.3% amount above Rs. 10 lakh	Rs. 39,000 plus 0.9% amount above Rs. 10 lakh	Additional fee of Rs. 6,000/- per month over and above fee prescribed in column 3
> 25,00,000	Rs. 17,500 plus 0.2 % amount above Rs. 25 lakh subject to maximum of Rs. 30,000	Rs. 52,500 plus 0.6 % amount above Rs. 25 lakh subject to maximum of Rs.90,000	Additional fee of Rs. 12,000/- per month over and above fee prescribed in column 3

- (ii) The filing fee will be utilized to meet the fee payable to the arbitrators.
 - (iii) A client, who has a claim / counter claim upto Rs. 10 lakh (Rs. Ten lakh) and files arbitration reference, will be exempted from filing the deposit.
 - (iv) Excess of filing fee over fee payable to the arbitrator, if any, to be deposited in the IPF of the respective Stock Exchange.
 - (v) In all cases, on issue of the arbitral award the stock exchange shall refund the deposit to the party in whose favour the award has been passed.
2. **Investor Protection fund (IPF), Investor Service fund (ISF), Interest on IPF and Interest on ISF**

A. IPF and ISF management structure

- (i) In order to ensure effective utilization of interest income on IPF, supervision of utilization of interest on IPF will rest with the IPF Trust.



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- (ii) In order to have better management and control on the contributions and utilization of ISF fund, supervision of the same will rest with the Investor Service Committee.

B. Investor Protection Fund corpus

In order to ensure the adequacy of corpus of the IPF, Stock Exchanges and Depositories shall periodically review the sources of the fund and the eligible compensation amount so as to recalibrate the fund to make suitable recommendation for enhancement.

C. Utilization of IPF, ISF, interest on IPF and interest on ISF

Modified guidelines for utilization of IPF, Interest on IPF, ISF and Interest on ISF would be as follows

Sr. No.	Particulars	Utilization
1	IPF	<p><i>Stock Exchanges:</i></p> <p>To meet the legitimate investment claims of the clients of the defaulting members.</p> <p><i>Depository:</i></p> <ul style="list-style-type: none">a) Promotion of investor education and investor awareness programmes through seminars, lectures, workshops, publications (print and electronic media), training programmes etc. aimed at enhancing securities market literacy and promoting retail participation in securities market;b) To utilize the fund for supporting initiatives of Depository Participants for promotion of investor education and investor awareness programmes;c) To utilize the fund in any other manner as may be prescribed/ permitted by SEBI in the interest of investors;



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		d) To meet the legitimate claims of the beneficial owners, upto the maximum cap as to be determined by the depository, in case the same is not settled by the beneficial owner indemnity insurance;
2	Interest on IPF	<p><i>Stock Exchanges:</i></p> <p>a) To further strengthen the corpus, 75% of interest on IPF earned every year should be treated as corpus of IPF;</p> <p>b) The balance 25% may be utilized by the exchange for promotion of investor education and investor awareness programmes through seminars, lectures, workshops, publications (print and electronic media), training programmes etc. aimed at enhancing securities market literacy, promoting retail participation in securities market and undertaking research activities related to securities market. Capital expenditure would be permissible only w.r.t. setting up of Investor Service Centre. However, no expenditure to be incurred on product promotion in any manner.</p> <p>c) In any other manner as may be prescribed/ permitted by SEBI in the interest of investors;</p> <p><i>Depositories:</i></p> <p>To further strengthen the corpus, 100% of Interest on IPF should be treated as corpus of IPF</p>
3	ISF	<p><i>Exchanges:</i></p> <p>a) ISF may be utilized only for promotion of investor education and investor awareness programmes through seminars, lectures, workshops, publications (print and electronic media), training programmes etc. aimed at enhancing securities market literacy and</p>



		<p>promoting retail participation in securities market;</p> <p>b) At least 50% should be spent at Tier II & Tier III cities;</p> <p>c) Cost of training of arbitrators;</p> <p>d) In any other manner as may be prescribed/ permitted by SEBI in the interest of investors;</p>
4	Interest on ISF	<p><i>Exchanges:</i> Interest on ISF should be ploughed back to ISF</p>

D. Admissibility of claim for making payment out of IPF in Stock Exchanges

In the event of default by the member, all transactions executed on exchange platform shall be eligible for settlement from IPF (subject to maximum limit), subject to the appropriate norms laid down by the Defaulters' Committee.

E. Determination of legitimate claims from IPF for clients of the defaulter member

The Stock Exchanges shall ensure that once a member has been declared defaulter, the claim (s) shall be placed before the Defaulters' Committee for sanction and ratification. The Defaulters' Committee's advice w.r.t. legitimate claims shall be sent to the IPF Trust for disbursement of the amount immediately.

In case the claim amount is more than the coverage limit under IPF or the amount sanctioned and ratified by the Defaulters' Committee is less than the claim amount then the investor will be at liberty to prefer for arbitration mechanism for claim of the balance amount.

F. Threshold limit for interim relief paid out of IPF in Stock Exchanges

In partial modification to Circular No. CIR/MRD/ICC/30/2013 dated September 26, 2013 on "Investor Grievance Redressal Mechanism" the following changes are prescribed:



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- (i) Stock Exchanges, in consultation with the IPF Trust and SEBI, shall review and progressively increase the amount of interim relief available against a single claim for an investor, atleast every three years.
- (ii) The Stock Exchanges shall disseminate the interim relief limit fixed by them and any change thereof, to the public through a Press Release and also through its website.
- (iii) In case, award is in favour of client and the member opts for arbitration wherein the claim value admissible to the client is not more than Rs. 20 lakhs (Rs. Twenty lakhs), the following steps shall be undertaken by the Stock Exchange:
 - a) In case the IGRP award is in favour of the client then 50% of the admissible claim value or Rs. 2.00 lakhs (Rs. Two lakhs), whichever is less, shall be released to the client from IPF of the Stock Exchange.
 - b) In case the arbitration award is in favour of the client and the member opts for appellate arbitration then 50% of the amount mentioned in the arbitration award or Rs. 3.00 lakhs (Rs. Three lakhs), whichever is less, shall be released to the client from IPF of the Stock Exchanges. The amount released shall exclude the amount already released to the client at clause (a) above.
 - c) In case the appellate arbitration award is in favour of the client and the member opts for making an application under Section 34 of the Arbitration and Conciliation Act, 1996 to set aside the appellate arbitration award, then 75% of the amount determined in the appellate arbitration award or Rs. 5.00 lakhs (Rs. Five Lakhs), whichever is less, shall be released to the client from IPF of the Stock Exchanges. The amount released shall exclude the amount already released to the client at clause (a) and (b) above.
 - d) Total amount released to the client through the facility of interim relief from IPF in terms of this Circular shall not exceed Rs. 10.00 lakhs (Ten lakhs) in a financial year.

3. Disciplinary Action Committee, Defaulters' Committee, Investors Service Committee, Arbitration Committee and IPF Trust

- (i) In partial modification to circular no. MRD/DoP/SE/Cir-38/2004 dated October 28, 2004 and CIR/MRD/DSA/33/2012 dated December 13,2012, the



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functions and composition of the Disciplinary Action Committee, Defaulter's Committee, Investors Service Committee and IPF Trust will be as follows:

Sr. No.	Name of Committee	Functions handled	Composition
1	<i>Disciplinary Action Committee</i>	<p>i. The Committee shall formulate the policy for regulatory actions including warning, monetary fine, suspension, withdrawal of trading terminal, expulsion, to be taken for various violations by the members of the exchange.</p> <p>ii. Based on the laid down policy, the Committee shall consider the cases of violations observed during inspection, etc. and impose appropriate regulatory action on the members of the exchange.</p> <p>iii. While imposing the regulatory measure, the Committee shall adopt a laid down process, based on the 'Principles of natural justice'.</p>	<p>(i) The Committee should have a minimum of 3 members and a maximum of 5 members;</p> <p>(ii) The Public Interest Directors shall form a majority of the Committee;</p> <p>(iii) A maximum of two key management personnel of the exchange can be on the committee and one of which shall necessarily be the Managing Director of the stock exchange;</p> <p>(iv) The Committee may also include independent external persons such as retired judge, etc.;</p> <p>(v) SEBI may nominate members in the Committee, if felt necessary in the interest of securities market;</p>



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2	<i>Defaulters' Committee</i>	<p>i. To realize all the assets / deposits of the defaulter/ expelled member and appropriate the same amongst various dues and claims against the defaulter/ expelled member in accordance with the Rules, Byelaws and Regulations of the exchange.</p> <p>ii. In the event both the clearing member and his constituent trading member are declared defaulter, then the Defaulter's Committee of the stock exchange and the Defaulter's Committee of the clearing corporation shall work together to realise the assets of both the clearing member and the trading member.</p> <p>iii. Admission or rejection of claims of client/ trading members/ clearing members over the assets of the defaulter/ expelled member.</p> <p>iv. Advise in respect of the claims to the Trustees of the IPF on whether the claim is to be paid out of IPF or otherwise.</p>	<p>(i) The Committee should have a minimum of 3 members and a maximum of 5 members;</p> <p>(ii) The Public Interest Directors shall form a majority of the Committee;</p> <p>(iii) A maximum of two key management personnel of the exchange can be on the Committee;</p> <p>(iv) The Committee may also include independent external persons such as retired judge, etc.;</p> <p>(v) SEBI may nominate members in the Committee, if felt necessary in the interest of securities market;</p>
3	<i>Investor Services</i>	(i) Supervising the functioning of Investors' Services Cell of	(i) The Committee should have a minimum of 3



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	<i>Committee</i>	<p>the Exchange which includes review of complaint resolution process, review of complaints remaining unresolved over long period of time, estimate the adequacy of resources dedicated to investor services, etc.;</p> <p>(ii) Supervision of utilization of ISF;</p> <p>(iii) To have annual review of the arbitrators and arbitration/ awards (both quantum and quality of the awards).</p>	<p>members and a maximum of 5 members;</p> <p>(ii) The Public Interest Directors shall form a majority of the Committee;</p> <p>(iii) A maximum of two key management personnel of the exchange can be on the Committee;</p> <p>(iv) The Committee may also include independent external persons;</p> <p>(v) SEBI may nominate members in the Committee, if felt necessary in the interest of securities market;</p>
4	<i>IPF Trust</i>	<p>(i) The IPF shall be administered by way of a Trust created for this purpose;</p> <p>(ii) The IPF Trust shall disburse the amount of compensation from IPF to the investor and such a compensation shall not be more than the maximum amount fixed for a single</p>	<p>(i) The Trust should have maximum 5 trustees;</p> <p>(ii) The trustee should comprise of:</p> <p>a. Three Public Interest Directors;</p> <p>b. One representative from investor associations recognized by SEBI;</p>



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	<p>claim of an investor;</p> <p>(iii) The IPF Trust shall disburse the compensation to the investors as and when claims have been crystallized against a defaulter member;</p> <p>(iv) The IPF Trust need not wait for realization of assets of the defaulter member for disbursements of the claims;</p> <p>(v) Upon receipt of advice of the Defaulters' Committee, for payment, the IPF Trust should take necessary steps for disbursement of the amount at the earliest</p>	<p>and</p> <p>c. The principal regulatory compliance officer of the MII;</p> <p>(iii) The maximum tenure of a trustee (excluding the principal regulatory compliance officer of the MII, whose trusteeship would be co-terminus with the service) should be five years or as specified by SEBI;</p>
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It may be noted that, norms for composition of IPF Trust, as provided in Clause 3(i)(4) above are uniformly applicable across Exchanges and Depositories.¹⁵⁷

Further, the functions of IPF Trust, as prescribed in Clause 3(i)(4) above, shall be applicable only to Exchanges.

(ii) The Arbitration Committee of the Stock Exchanges shall stand discontinued.

¹⁵⁷Reference: SEBI/HO/MRD/DDAP/CIR/P/2020/16 dated January 28, 2020



4.39 *Digital Mode of Payment*¹⁵⁸

- i. SEBI has notified the SEBI (Payment of Fees and Mode of Payment) (Amendment) Regulations, 2017 on March 06, 2017 to enable digital mode of payment (RTGS/NEFT/IMPS, etc.) of fees/penalties/remittance/other payments etc.
- ii. Pursuant to above, SEBI has been receiving direct credit of amounts from various intermediaries / other entities.
- iii. In order to identify and account such direct credit in the SEBI account, intermediaries / other entities shall provide the information as mentioned in Annexure below to SEBI once the payment is made.
- iv. The above information should be emailed to the respective department(s) as well as to Treasury & Accounts division at tad@sebi.gov.in

Annexure

Date	Department of SEBI	Name of Intermediary / Other entities	Type of Intermediary	SEBI Registration No. (If any)	PAN	Amount (Rs.)	Purpose of Payment (including the period for which payment was made e.g. quarterly, annually)	Bank name and Account number from which payment is remitted	UTR No.

4.40 *Framework for Innovation Sandbox*¹⁵⁹

- 4.40.1 Capital market in India have been early adopters of technology. SEBI believes that encouraging adoption and usage of financial technology ('FinTech') would have a profound impact on the development of securities market. FinTech can act as a catalyst to further develop and maintain an efficient, fair and transparent securities market ecosystem.
- 4.40.2 To create an ecosystem which promotes innovation in the securities market, SEBI feels that FinTech firms should have access to market related data, particularly, trading and holding data, which is otherwise not readily available to them, to enable them to test

¹⁵⁸ Reference circular number SEBI/HO/GSD/T&A/CIR/P/2017/42 dated May 16, 2017

¹⁵⁹ Reference circular number SEBI/MRD/CSC/CIR/P/2019/64 dated May 20, 2019

their innovations effectively before the introduction of such innovations in a live environment.

- 4.40.3 The “Innovation Sandbox”, would be a testing environment where FinTech firms and entities not regulated by SEBI including individuals (herein afterwards referred to as participants/ applicants) may use the environment for offline testing of their proposed solutions in isolation from the live market, subject to fulfillment of the eligibility criteria, based on market related data made available by Stock Exchanges, Depositories and Qualified Registrar and Share Transfer Agents (QRTAs).

Features and Structure of Innovation Sandbox

- 4.40.4 The components and structure of the Innovation Sandbox can be broadly classified into design, legal and administrative categories. The method of implementation has been elaborated under the head “Implementation” in para 4.40.6-4.40.13.

I. Design Components

A. Data Sets

- a) One of the most important components of an Innovation Sandbox is access to securities market related data, which will enable participants to test and improve their FinTech solutions.
- b) The datasets that will be made available to participants shall be clearly defined and known to market participants. Indicative datasets which may become part of the Innovation Sandbox are as follows:
 - i. Depositories data: Holding data, KYC data
 - ii. Stock exchange data: Transactions data like order log, trade log
 - iii. RTA data: Mutual fund transactions data
- c) The datasets shall be historical and anonymized data and shall also contain data related to episodic market events. Live data shall not be made available to participants.
- d) Access to datasets shall be provided in a phased manner starting with limited amount of data and based on validations, more exhaustive data would be provided to participants.
- e) The use of datasets shall be governed by comprehensive confidentiality agreement which shall include an ‘End User Agreement’ clearly specifying that the datasets made available shall not be sold or sublet or shared in any manner with any other entities.

B. Infrastructure

- a) The datasets to be used for testing solutions in the Innovation Sandbox shall be shared through application program interface (APIs), which will be widely published and available to all eligible participants.
- b) Virtual machines may be made available with configurations similar to the live environment for testing an innovative product, service or solution on the datasets.

II. Legal components

a) Flexibility

The Innovation Sandbox shall be flexible to adapt and incorporate the changes, once the Innovation Sandbox evolves and matures.

b) Not-for-profit

The Innovation Sandbox can be set up as a separate not-for-profit entity which enhances the impartiality of the Innovation Sandbox.

c) Compliance

The Innovation Sandbox should ensure that all applicants can perform their testing without breaking any regulatory barriers, including compliance with investor protection, Know Your Client norms, data integrity or any other Indian laws.

d) Legally robust

The Innovation Sandbox should clearly define the rights and obligations of the stakeholders. Applicants are required to agree to contractually binding terms of participation.

e) Intellectual Property Rights (IPR) protection

The Innovation Sandbox should have the relevant provisions to protect the applicants' IPR. Also, it should define how the IPR which results from the collaboration can be used once the testing phase has ended.

f) Prevention of Data misuse

The Innovation Sandbox should have provision to restrict misuse of data from the stated purposes.

g) Restriction from Fraudulent purposes

The Innovation Sandbox should have provision for restricting development of any product/ solution for fraudulent/ manipulative purposes.

h) Secured

The Innovation Sandbox should be secured from cyber threats or unauthorized access.



III. Administrative Components

a) Application Assessment

Applications received for participating in the Innovation Sandbox will be assessed and rule based self-assessment process shall be formalized, in order to allow the applicants' automatic entry into the Innovation Sandbox.

b) Governance body

A governance body shall be formed comprising of representatives from the Stock Exchanges, Depositories and Qualified Registrar and Share Transfer Agents. This body shall supervise the operations of the Innovation Sandbox in the interests of its contributors, users and securities market in general. The governance body shall be responsible for ensuring that the sandbox fulfils its stated objectives. The governance of the Innovation Sandbox should be neutral and should not favor any particular participant or category of participants.

c) Operational team

An operational team shall be constituted to carry out the day-to-day activities of the Innovation Sandbox including processing applications, communicating with applicants, assisting the governance body, maintaining the infrastructure of the Innovation Sandbox, supervising the testing in Innovation Sandbox etc.

d) Rules of participation

Rules shall be framed to regulate the rights and responsibilities of the participant with respect to an Innovation Sandbox and to other participants. These rules could be same for each applicant type and may include the entry and exit criteria, operating guidelines, reporting requirements etc.

e) Grievance redressal process

A grievance redressal mechanism shall be formulated to deal with the grievances of any applicant in the Innovation Sandbox. This mechanism shall clearly define the point of contact for grievance redressal along with the escalation matrix.

IV. Interface for Innovation Sandbox

The entire sandbox participation lifecycle (applying, tracking, on-boarding, monitoring, reporting, etc.) shall be completely digital to ensure transparency and efficiency.

Eligibility Criteria

4.40.5 The eligibility criteria for inclusion into the Innovation Sandbox are as follows:

a) Applicability

Conceptually, the Innovation Sandbox framework is applicable to any entity, who intends to innovate on the products, services, and/or solutions for the securities and commodities market in India.

b) Genuine need to test

The applicant should have a genuine need for testing the solution using resources available in the Innovation Sandbox. The applicant should be able to postulate that the solution cannot be developed properly without testing in the Innovation Sandbox.

c) Testing readiness of the solution

The applicant should have the necessary resources to support testing in the sandbox. The applicant must show testing plans with clear objectives, parameters and success criteria.

d) Post-testing strategy

The applicant should be able to postulate their post-testing plan.

e) Direct benefits to consumers

The solution should offer identifiable benefits (direct or indirect) to consumers and to the capital market and the Indian economy at large.

f) Secure

The solution shall be validated for cyber security parameters. The applicant is required to submit a cyber-security compliance certificate as per SEBI's Cyber Security guidelines.

Implementation

- 4.40.6 A Steering Committee comprising of representatives from the Market Infrastructure Institutions (MIIs) and QRTAs shall develop the operating guidelines as mentioned at Para 4.40.4 III (c) towards the components and structure of the Innovation Sandbox as articulated in the Features, Structure and Eligibility criteria of Innovation Sandbox in Para 4.40.4 and 4.40.5. The Steering Committee shall also include members drawn from the areas of FinTech start-ups, academia and angel investors or any other area as may be prescribed by SEBI. At the initial stage, SEBI representative shall be a permanent invitee to this Committee.
- 4.40.7 Post issuance of operating guidelines, the Steering Committee shall carry out all the functions as envisaged in the Administrative Components at Para 4.40.4 viz. receive, evaluate and process the applications received for participating in the Innovation Sandbox, approve / reject applications so received, grievance redressal etc. The Steering Committee shall also be responsible for registering/onboarding the applicant post

approval of the application and monitor the participant throughout the lifecycle of the project.

- 4.40.8 Each of the MIIs and QRTAs shall build their own interface and APIs. Any approved sandbox applicant can then get access to the APIs of the respective MIIs and QRTAs where the applicant would test its solution.
- 4.40.9 The Sandbox applicant may give a presentation to the Steering Committee upon completion of the testing and exit from the Innovation Sandbox.
- 4.40.10 The Steering Committee overseeing the testing of the applicant's solution within the sandbox shall maintain an Objective and Key Result Areas (OKRA) document for effective oversight on the entire process.
- 4.40.11 The entire sandbox participation lifecycle (applying, tracking, on-boarding, monitoring, reporting, etc.) should move towards a complete digital environment within a time-bound manner, not exceeding 24 months, towards ensuring transparency and efficiency.
- 4.40.12 The Steering Committee, to begin with, shall evolve decisions based on consensus and have a Chairperson from among the group on a rotation basis.
- 4.40.13 Based on the functioning of the Steering Committee, SEBI would prescribe other norms for governance, as and when required.
- 4.40.14 The steering committee shall be constituted within 15 days of issuance of these provisions. The steering committee shall provide the operating guidelines within 2 months of issuance of these provisions.

Outcome of Innovation Sandbox

- 4.40.15 SEBI envisages the Innovation Sandbox to have the following benefits:

- i. Product showcase**

- A platform for showcasing the working prototype of the solution which may help FinTech firms secure more funding.

- ii. Product regulation**

- Assessing compliance and readiness with SEBI's regulations.

iii. Industry interoperability

Providing an environment where developers could explore industry challenges and use cases for innovative technologies linked to interoperability of new solutions across the industry.

4.41 Framework for Regulatory Sandbox¹⁶⁰

- 4.41.1 Participants in the capital market in India have been early adopters of technology. SEBI believes that encouraging adoption and usage of financial technologies ('FinTech') can act as an instrument to further develop and maintain an efficient, fair and transparent securities market ecosystem.
- 4.41.2 Towards this end, SEBI vide circular SEBI/HO/MRD/2019/P/64 dated May 20, 2019, stipulated a framework for an industry-wide Innovation Sandbox, whereby FinTech startups and entities not regulated by SEBI were permitted to use the Innovation Sandbox for offline testing of their proposed solution.
- 4.41.3 SEBI now has introduced a framework for "Regulatory Sandbox". Under this sandbox framework, entities regulated by SEBI shall be granted certain facilities and flexibilities to experiment with FinTech solutions in a live environment and on limited set of real customers for a limited time frame. These features shall be fortified with necessary safeguards for investor protection and risk mitigation
- 4.41.4 The guidelines pertaining to the functioning of the Regulatory Sandbox are provided at Annexure A.

Annexure A

APPLICABILITY

1. All entities registered with SEBI under section 12 of the SEBI Act 1992, shall be eligible for testing in the regulatory sandbox. The entity may either on its own or engage the services of a FinTech firm. In either scenarios, the registered market participant shall be treated as the principal applicant, and shall be solely responsible for testing of the solution.

ELIGIBILITY CRITERIA FOR THE PROJECT

¹⁶⁰ Reference circular SEBI/HO/MRD-1/CIR/P/2020/95 dated June 05, 2020

2. The eligibility criteria shall be as follows:

a) Genuineness of innovation

The solution should be innovative enough to add significant value to the existing offering in the Indian securities market.

b) Genuine need to test

The applicant should have a genuine need for live testing the solution on real customers. Further, the applicant should demonstrate that the solution cannot be developed without relaxing certain regulations, if any, being sought.

c) Limited prior testing

Before applying for testing in sandbox, limited offline testing of the solution should have been carried out by the applicant.

d) Direct benefits to users

The solution should offer identifiable benefits (direct or indirect) to the investors or entities or to the capital market at large.

e) No risks to the financial system

The solution should have proper risk management strategy to incorporate appropriate safeguards to mitigate and control potential risks to any market participants/users that may arise from the testing of the solution and shall propose appropriate safeguards to manage the risks and contain the consequences of failure.

f) Testing readiness of the solution

The applicant should have the necessary resources to support testing in the sandbox and must demonstrate well developed testing plans with clear objectives, parameters and success criteria.

g) Deployment post-testing

The applicant should demonstrate the intention and ability to deploy the solution on a broader scale. To this effect the applicant should share a proposed sandbox exit and transition strategy.

APPLICATION AND APPROVAL PROCESS

3. The applicant shall ensure that the specified eligibility criteria are satisfied while submitting the application as per **Annexure-1** to SEBI. The application form shall be



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signed by the Chief Executive Officer (CEO) of the applicant or officer duly authorized by the CEO or compliance officer. The complete application must be submitted to:

Chief General Manager,
Market Regulation Department-1,
SEBI Bhavan, Plot No. C4-A, G-Block, Bandra Kurla Complex,
Bandra (E), Mumbai – 400051
or
by email at regulatorysandbox@sebi.gov.in

4. Thereafter, the application shall be forwarded to the relevant department of SEBI for processing. The flowchart for the application and approval process is depicted at **Annexure-2**. SEBI shall communicate with the applicant during the course of evaluating the sandbox application, and during the testing phase.
5. At the “Application Stage”, SEBI shall review the application and inform of its potential suitability for a sandbox within 30 working days from the submission of the complete application. SEBI may issue guidance to the applicant according to the specific characteristics and risks associated with the proposed solution. SEBI may also consult its Committee on Financial and Regulatory Technologies (CFRT), if necessary, to evaluate the application.
6. At the “Evaluation Stage”, SEBI shall work with the applicant to determine the specific regulatory requirements and conditions (including test parameters and control boundaries) to be applied to the proposed solution in question. The applicant shall then assess if it is able to meet these requirements. If the applicant is able and willing to meet the proposed regulatory requirements and conditions, the applicant shall be granted permission to develop and test the proposed FinTech innovation(s) in the sandbox.
7. Upon approval, the application shall proceed towards the “Testing Stage”. The participant shall disclose to its users that the solution shall operate in a sandbox and the potential key risks associated with the solution. The applicant is also required to obtain the user’s acknowledgement that they have read and understood the risks
8. During the testing stage, the applicant shall take prior approval from SEBI to effect any material changes to the solution.
9. Each applicant shall assign a contact person to coordinate with a designated officer of SEBI.



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10. The duration of the sandbox testing stage shall be a maximum of twelve months and extendable upon request of the applicant.
11. In case an application is rejected at any stage, the applicant shall be informed accordingly. The reasons for rejection could include failure to meet the objective of the sandbox or any of the eligibility criteria. The applicant may re-apply for the sandbox when it is ready to meet the objective and eligibility criteria of the sandbox, subject to an appropriate cooling off period as decided by the concerned department of SEBI.

EVALUATION CRITERIA

12. The applicant may be evaluated using a scoring process by the concerned department, inter alia, based on the parameters given below:
 - i. Profile of the applicant
 - ii. Usage of innovative solution including technology and/or processes
 - iii. Identified benefits to the investors and/or the securities/commodities markets
 - iv. Compilation of meaningful test scenarios and expected/desired outcomes
 - v. Risk measured/graded testing conditions and parameters so as to ensure safety and protection of the markets/investors
 - vi. Risk mitigation for high risk testing conditions and parameters
 - vii. Appropriate disclosure requirements and protection to their users
 - viii. Clearly defined grievance redressal mechanism and user rights
 - ix. Adequate disclosure of the potential risks to participating users
 - x. Prior confirmation from users that they fully understand and accept the attendant risks
 - xi. Intent and feasibility to deploy the proposed FinTech solution post testing
 - xii. The deployment and monitoring strategy post testing (in the event the tests are deemed successful) or the exit strategy (in the event the tests are not successful)
 - xiii. Any other factors considered relevant by SEBI

REGULATORY EXEMPTIONS

13. To encourage innovation with minimal regulatory burden, SEBI shall consider exemptions/ relaxations, if any, which could be either in the form of a comprehensive exemption from certain regulatory requirements or selective exemptions on a case-by-case basis, depending on the FinTech solution to be tested.



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14. Within the overarching principles of market integrity and investor protection, no exemptions would be granted from the extant investor protection framework, KnowYour-Customer (KYC) and Anti-Money Laundering (AML) rules.
15. Entities desirous of participating in sandbox shall make an application, including exemption / relaxation being sought from relevant provisions of the applicable regulatory framework.
16. The registration granted by SEBI to all entities registered with SEBI under Section 12 of the SEBI Act, 1992 is activity based. An entity which is registered with SEBI for a particular activity is authorized to carry out activity in that domain. In order to enable the cross domain testing of FinTech solutions, an existing registered entity would be required to first obtain a limited certificate of registration for the category of intermediary for which it seeks to test the FinTech solution(s). This concept of limited registration shall facilitate the entities to operate in a Regulatory Sandbox without being subjected to the entire set of regulatory requirements to carry out that activity.
17. Accordingly, regulatory relaxations from various SEBI regulations may be provided after analyzing specific sandbox testing applications. A reference list is given at **Annexure-3** with examples of the regulatory requirements that will be mandatory and those for which SEBI may consider granting relaxation during the sandbox testing.
18. SEBI has notified SEBI Regulatory Sandbox (Amendment) Regulations, 2020 so as to enable the respective department(s) to grant relaxation(s)/exemption(s), as may be deemed fit, while granting such limited certificate of registration.

SUBMISSION OF TEST RELATED INFORMATION AND REPORTS

19. During the testing period, SEBI may require the participant to submit information/ interim reports including:
 - i) Key performance indicators, milestones and statistical information
 - ii) Key issues arising as observed from fraud or operational incident reports
 - iii) Actions or steps taken to address the key issues identified above
20. The Sandbox Participants must submit a final report containing the following information to SEBI within 30 calendar days from the expiry of the testing period:
 - i) Key outcomes, key performance indicators against agreed measures for the success or failure of the test and findings of the test

- ii) A full account of all incident reports and resolution of user complaints, if any
 - iii) Key learnings from the test
21. The interim and final reports must be confirmed by the Chief Executive Officer (CEO) of the applicant or officer duly authorized by the CEO or the compliance officer.
22. The participant must ensure that proper records of the conducted tests are maintained for review by SEBI. Further, the participant shall also maintain such records for a period of five (5) years from the date of completion of testing/ exit from the sandbox.

OBLIGATIONS OF THE APPLICANT TOWARDS THE USER

23. The applicant shall ensure that before signing up, the user has read the full documentation provided by the applicant and confirm that he/she is aware of the risks of using the solution.
24. The applicant shall ensure that users participating in the sandbox have the same protection rights as the ones participating in the live market.

EXTENDING OR EXITING THE SANDBOX

25. At the end of the testing period, the permission granted to the applicant as well as the legal and regulatory requirements relaxed by SEBI, shall expire.
26. Upon completion of testing,
- i) SEBI shall decide whether to permit the FinTech innovation to be introduced in the market on a wider scale. Where allowed, participants intending to carry out regulated businesses shall be assessed based on applicable licensing, approval and registration criteria under various SEBI regulations, as the case may be.

OR

- ii) The applicant may employ an exit strategy.
- iii) The applicant may request for an extension period to continue testing.
27. The applicant may exit the sandbox on its own by giving a prior notice to SEBI, in writing, of its intention to exit the sandbox.

28. The applicant shall ensure that any existing obligation to the users of the FinTech innovation(s) in the sandbox are completely fulfilled or addressed before exiting the sandbox or before discontinuing the sandbox testing.
29. The applicant is required to maintain records of acknowledgement of all its users stating that all the obligations towards the users have been met. These records shall be maintained by the applicant for a period of five years from the date of exit from the sandbox.

REVOCATION OF THE APPROVAL

30. SEBI may revoke an approval, to participate in the sandbox, at any time before the end of the testing period, if the applicant:
 - i) Fails to carry out risk mitigants.
 - ii) Submits false, misleading or inaccurate information, or has concealed or failed to disclose material facts in the application
 - iii) Contravenes any applicable law administered by SEBI or any applicable law in India or abroad
 - iv) Suffers a loss of reputation
 - v) Undergoes or has gone into liquidation
 - vi) Comprises the digital security and integrity of the service or product or elevates the risk of a cyber-security attack
 - vii) Carries on business in a manner detrimental to users or the public at large
 - viii) Fails to effectively address any technical defects, flaws or vulnerabilities in the product, service or solution which gives rise to recurring service disruptions or fraudulent activities
 - ix) Fails to implement any directions given by SEBI
31. In addition to revocation of approval for participating in the sandbox, appropriate actions under relevant regulatory framework may be initiated against the applicant in case Fintech solution facilitates the following:
 - i) Undermining of Know Your Customer (KYC) principles
 - ii) Violation of user's/investor's privacy
 - iii) Promotion of sale of fraudulent/illegal products or services
 - iv) Promotion of mis-selling of products or services
 - v) Violation of Anti-Money Laundering (AML) norms
 - vi) Creation of risk to financial stability



vii) Theft of intellectual property

32. Before revoking the approval to participate in the sandbox, SEBI shall:

- i) Immediately suspend trials on new users i.e. no new users shall be permitted to sign up for using/testing the solution
- ii) Give the applicant a prior notice of its intention to revoke the approval; and
- iii) Provide an opportunity to the applicant to respond to SEBI on the grounds for revocation

33. Notwithstanding anything contained in the above para, where SEBI is satisfied that in the interest of the applicant, its users, the financial system or the public in general, it may revoke the approval immediately without prior notice and provide the opportunity to the participant to respond after the effective date of revocation. If the response is satisfactory, SEBI may reinstate the approval to participate in the sandbox.

34. Upon revocation of an approval, the participant must:

- i) Immediately implement its exit plan to cease the provision of the product, process, service or solution to new and existing users;
- ii) Notify its users about the cessation and their rights to grievance redressal, as applicable;
- iii) Comply with obligations imposed by SEBI to dispose of all confidential information including user's personal information collected over the duration of the testing;
- iv) Compensate any users who had suffered financial losses arising from the test in accordance with the safeguards submitted by the participant;
- v) Submit a report to SEBI on the actions taken, within 30 days from the revocation;
- vi) Comply with any other directions given by SEBI.

ANNEXURE 1

REGULATORY SANDBOX APPLICATION FORM

1. Applicant's Information		
Sr. No.	Description	Response
1.1	Name of the Organization	
1.2	SEBI Registration no.	



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1.3	Name of the Authorized Representative	
1.4	Designation	
1.5	Contact No	
1.6	Email id	

2. Details of the FinTech firms involved, if any

Sr. No.	Description	Response
2.1	Provide a brief description of the FinTech firm and its core businesses including but not limited to: a. registration with other regulators, b. affiliation to prominent societies, c. Accreditations, d. significant achievements e. financial standing including avenues for funding f. Profile of key personnel	
2.2	Does the FinTech firm have a presence in India? If yes then please provide details.	
2.3	Is the FinTech firm's business already active abroad? If yes then please provide details.	
2.4	Current orders or proceedings against the FinTech firm in India and abroad (if any)	

3. About the proposed solution

Sr. No.	Description	Response
3.1	Provide a short summary of the proposed solution to be tested in the sandbox including but not limited to: a. Objective of the proposed FinTech solution or the statement of purpose b. Key benefits to the users and markets c. Business Model, including asset deployment and sources of revenue d. Target users e. Compliance obligations f. Time period for testing	
3.2	Summary of the technical solution including but not limited to: a. Technical architecture b. Usage of Artificial Intelligence and Machine Learning, if	

	any c. Cyber resilience: VAPT results, if any d. Certification from Common Criteria Recognition Arrangement (CCRA), if any e. Business Continuity Plan, if any f. Any other certifications, if any	
3.3	With respect to the genuineness of innovation, please provide an explanation as to how the solution constitutes a significantly different offering in the market place	
3.4	Awareness of similar offering in other countries or for other than securities/commodities markets	
3.5	Timelines for pan-India deployment post sandbox testing	
4. Sandbox readiness		
Sr. No.	Description	Response
4.1	Illustrate the aspect of the FinTech solution that will be tested	
4.2	The test criteria and expected outcomes	
4.3	Describe the use case that will be tested in the sandbox	
4.4	Define success for a test and the Key Performance Indicators that will indicate a successful test	
4.5	Probable start and end date of sandbox testing	
4.6	Details of users including but not limited to: <ul style="list-style-type: none"> a. Number of participating customers b. Profile of customers (retail, institutional, etc.) c. Process for enrollment and acquisition of customers d. Requirement of KYC e. User awareness required/conducted f. Whether consent required /has consent been obtained g. Arrangements to limit loss if applicable e.g. Margin, stop loss thresholds etc. h. User compensation if any i. Value at risk per user 	



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	j. Transaction thresholds per user	
4.7	Risk assessment and mitigation options including but not limited to: a. Failure of sandbox testing b. Financial loss to the customers c. Cyber attack d. AML and terrorism financing	
4.8	Any instance of a legal and regulatory non-compliance for any other regulator during the sandbox testing	
5. Legal and Regulatory Assessment: other regulators		
5.1	Legal and regulatory status (registration, licensing, authorization, approval, recognition etc.)	
5.2	Legal opinion sought on the proposed FinTech solution, if any	
5.3	Relevant license to deploy the proposed solution in the production environment? Please provide the details	
6. Deployment post-testing		
6.1	Describe how the regulatory requirements will be met post successful sandbox testing	
6.2	Please provide a pan-India deployment strategy, post successful sandbox testing	
6.3	Please provide a clear strategy to monitor the outcomes in the live scenario	
6.4	Please provide exit and transition strategy if the deployed solution turns unviable and the tests are unsuccessful	
7. Relaxation of SEBI regulations and guidelines		
7.1	Outline the list of rules, regulation, guidelines, circulars etc. of SEBI that, as per the applicant, may act as an impediment to the proposed FinTech solution, along with detailed rationale	



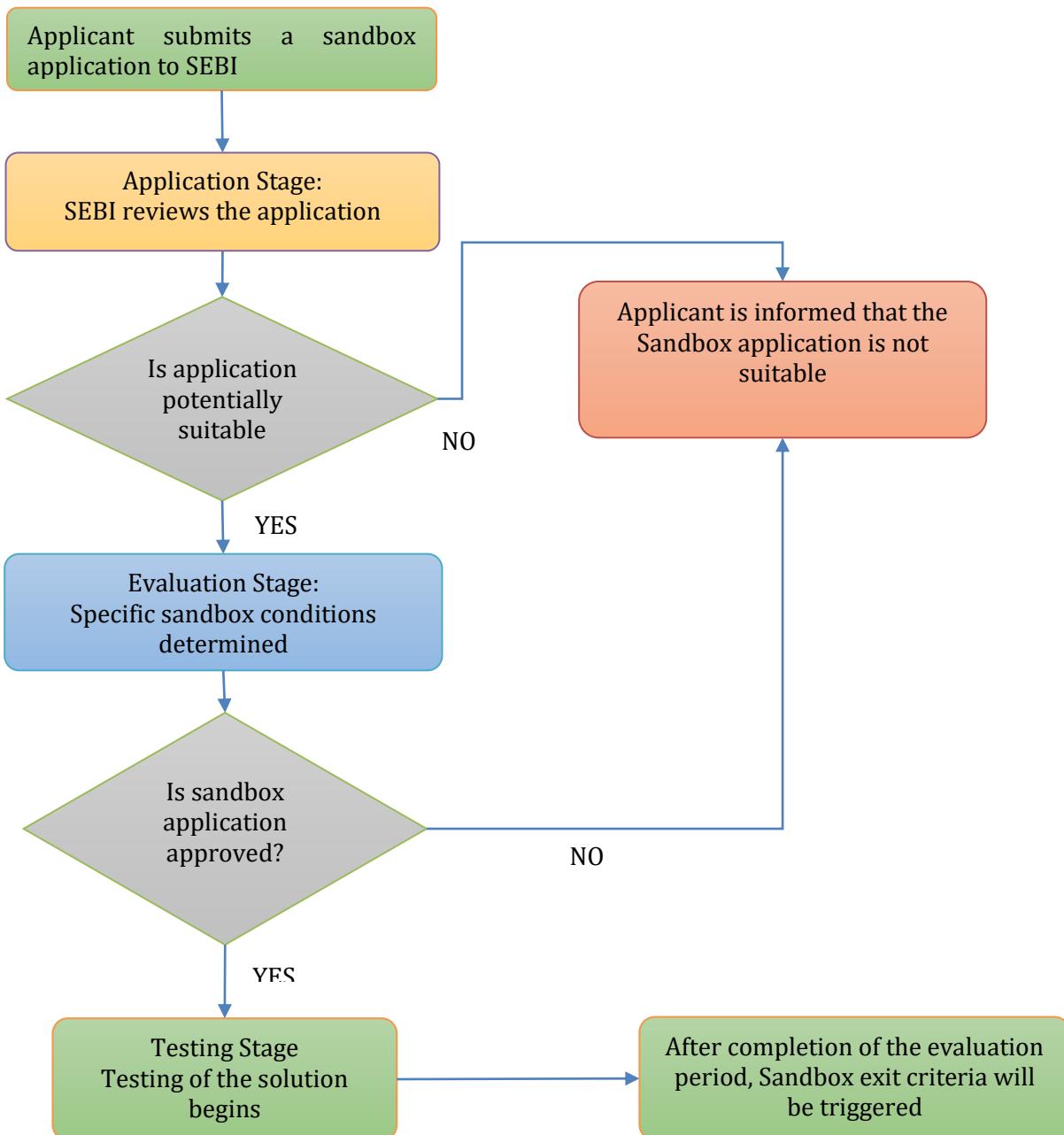
7.2	Is SEBI to relax any specific regulatory requirements, for the duration of the sandbox? Please provide the details along with detailed rationale	
7.3	In the event of a successful test and before exit from the sandbox, provide details on how SEBI's regulatory requirements shall be complied with	



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ANNEXURE-2

FLOWCHART: APPLICATION AND APPROVAL PROCESS



ANNEXURE - 3

REQUIREMENTS WHICH WILL NOT BE RELAXED AND WHICH MAY MERIT RELAXATION (FOR ILLUSTRATIVE PURPOSE)

- a. Requirements for which relaxation will not be considered
 - i. Confidentiality of customer information
 - ii. Fit and proper criteria particularly on honesty and integrity
 - iii. Handling of customer's moneys and assets by intermediaries
 - iv. Prevention of money laundering and countering the financing of terrorism
 - v. Risk checks (like price check, order value check, etc.)
 - vi. Principles of KYC

- b. Requirements that may merit relaxation
 - i. Net worth
 - ii. Track record
 - iii. Registration fees
 - iv. SEBI Guidelines, such as technology risk management guidelines and outsourcing guidelines
 - v. Financial soundness

4.42 Monitoring of Foreign Investment limits in listed Indian companies¹⁶¹

- i. As per FEMA, the onus of compliance with the various foreign investment limits rests on the Indian company. In order to facilitate the listed Indian companies to ensure compliance with the various foreign investment limits, SEBI in consultation with RBI has decided to put in place a new system for monitoring the foreign investment limits. The architecture of the new system has been explained in Annexure A.
- ii. The depositories (NSDL and CDSL) shall put in place the necessary infrastructure and IT systems for operationalizing the monitoring mechanism described at Annexure A.

¹⁶¹ Reference circular IMD/FPIC/CIR/P/2018/61 dated April 05, 2018

Annexure A

Architecture of the System for Monitoring Foreign Investment Limits in listed Indian companies

Housing of the System

- i. The system for monitoring the foreign investment limits in listed Indian companies shall be implemented and housed at the depositories (NSDL and CDSL).

Designated Depository

- ii. A Designated Depository is a depository which has been appointed by an Indian company to facilitate the monitoring of the foreign investment limits of that company. As defined at Regulation 2(xxiii) of FEMA, the term 'Indian company' means a company incorporated in India and registered under the Companies Act, 2013.
- iii. The Designated Depository shall act as a lead depository and the other depository shall act as a feed depository.

Company Master

- iv. The company shall appoint any one depository as its Designated Depository for the purpose of monitoring the foreign investment limit.
- v. The stock exchanges (BSE, NSE and MSEI) shall provide the data on the paid-up equity capital of an Indian company to its Designated Depository. This data shall include the paid-up equity capital of the company on a fully diluted basis. As defined at Regulation 2(xvii) of FEMA, the term "fully diluted basis" means the total number of shares that would be outstanding if all possible sources of conversion are exercised.
- vi. The depositories shall provide an interface wherein the company shall provide the following information to its Designated Depository:
 1. Company Identification Number (CIN)
 2. Name
 3. Date of incorporation
 4. PAN number
 5. Applicable Sector
 6. Applicable Sectoral Cap
 7. Permissible Aggregate Limit for investment by FPIs
 8. Permissible Aggregate Limit for investment by NRIs
 9. Details of shares held by FPI, NRIs and other foreign investors, on repatriable basis, in demat as well as in physical form
 10. Details of indirect foreign investment which are held in both demat and physical form

11. Details of demat accounts of Indian companies making indirect foreign investment in the capital of the company
12. Whether the Indian company that has total foreign investment in it, is either not owned and not controlled by resident Indian Citizens or is owned or controlled by person's resident outside India (Yes or No)
13. ISIN-wise details of the downstream investment in other Indian companies

The information provided by the companies shall be stored in a Company Master database. The Designated Depository, if required, may seek additional information from the company for the purpose of monitoring the foreign investment limits. The companies shall ensure that in case of any corporate action, the necessary modification is reflected immediately in the Company Master database.

- vii. In the event of any change in any of the details pertaining to the company, such as increase/decrease of the aggregate FPI/NRI limits or the sectoral cap or a change of the sector of the company, etc. the company shall inform such changes along with the supporting documentation to its Designated Depository. Such documentation may include:
 1. Board of Directors resolution approving the increase/decrease
 2. General body resolution approving the increase/decrease
 3. Company Secretary certificate for compliance with FEMA, 1999

Reporting of trades

- viii. At present, as per SEBI guidelines, the custodians are reporting confirmed trades of their FPI clients to the depositories on a T+1 basis. This reporting shall continue and the data shall be the basis of calculating FPI investments/holding in Indian companies.
- ix. With respect to NRI (repatriable) trades, Authorized Dealer (AD) Banks shall report the transactions of their NRI clients to the depositories. The AD Banks shall be guided by the circulars issued by RBI in this regard.

Activation of a Red Flag Alert

- x. The monitoring of the foreign investment limits shall be based on the paid-up equity capital of the company on a fully diluted basis to ensure that all foreign investments are in compliance with the foreign investment limits.
- xi. A red flag shall be activated whenever the foreign investment within 3% or less than 3% of the aggregate NRI/FPI limits or the sectoral cap. This shall be done as follows:

Aggregate NRI investment limit in the company

1. The system shall calculate the percentage of NRI holdings in the company and the investment headroom available as at the end of the day with respect to the aggregate NRI investment limit.



2. If the available headroom is 3% or less than 3% of the aggregate NRI investment limit, a red flag shall be activated for that company.
3. Thereafter, the depositories and exchanges shall display the available investment headroom, in terms of available shares, for all companies for which the red flag has been activated, on their respective websites.
4. The data on the available investment headroom shall be updated on a daily end-of-day basis as long as the red flag is activated.

Aggregate FPI investment limit of the company

1. The system shall calculate the percentage of FPI holding in the company and the investment headroom available as at the end of the day with respect to the aggregate FPI investment limit
2. If the available headroom is 3% or less than 3% of the aggregate FPI investment limit, a red flag shall be activated for that company.
3. Thereafter, the depositories and exchanges shall display the available investment headroom, in terms of available shares, for all companies for which the red flag has been activated, on their respective websites.
4. The data on the available investment headroom shall be updated on a daily end-of-day basis as long as the red flag is activated.

Sectoral cap of the company

1. The system shall calculate the total foreign investment in the company by adding the aggregate NRI investment on the stock exchange, the aggregate FPI investment in the company and other foreign investment as provided by the company in the company master.
 2. If the total foreign investment in a company is within 3% or less than 3% of the sectoral cap, then a red flag shall be activated for that company.
 3. Thereafter, the depositories and exchanges shall display the available investment headroom, in terms of available shares, for all companies for which the red flag has been activated, on their respective websites.
 4. The data on the available investment headroom shall be updated on a daily end-of-day basis as long as the red flag is activated.
- xii. The depositories shall inform the exchanges about the activation of the red flag for the identified scrip. The exchanges shall issue the necessary circulars/public notifications on their respective websites. Once a red flag has been activated for a given scrip, the foreign investors shall take a conscious decision to trade in the shares of the scrip, with a clear understanding that in the event of a breach of the aggregate NRI/FPI limits or the



sectoral cap, the foreign investors shall be liable to disinvest the excess holding within five trading days from the date of settlement of the trades.

Breach of foreign investment limits

- xiii. Once the aggregate NRI/FPI investment limits or the sectoral cap for a given company have been breached, the depositories shall inform the exchanges about the breach. The exchanges shall issue the necessary circulars/public notifications on their respective websites and shall halt all further purchases by:
1. FPIs, if the aggregate FPI limit is breached
 2. NRIs, if the aggregate NRI limit is breached
 3. All foreign investors, if the sectoral cap is breached
- xiv. In the event of a breach of the sectoral cap/aggregate FPI limit/aggregate NRI limit, the foreign investors shall divest their excess holding within 5 trading days from the date of settlement of the trades, by selling shares only to domestic investors.

Method of disinvestment

- xv. The proportionate disinvestment methodology shall be followed for disinvestment of the excess shares so as to bring the foreign investment in a company within permissible limits. In this method, depending on the limit being breached, the disinvestment of the breached quantity shall be uniformly spread across all foreign Investors/FPIs/NRIs which are net buyers of the shares of the scrip on the day of the breach. The foreign investors are required to disinvest the excess quantity by selling them only to domestic investors, within 5 trading days of the date of settlement of the trades that caused the breach.
- xvi. This method has been illustrated with the help of an example provided below.

Total shares that can be purchased by foreign investors till sectoral cap is not breached	600
Total quantity purchased by foreign investors on T day	1000
Breach quantity	400

Time	Foreign Investor	Purchased quantity	Cumulative Purchase by foreign investor	Quantity to be disinvested by the foreign investor
1000 hrs	ABC	100	100	40
1015 hrs	XYZ	250	350	100
1145 hrs	TYU	50	400	20
1230 hrs	POI	180	580	72
1300 hrs	QSX	120	700	48
1400 hrs	REW	150	850	60



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Time	Foreign Investor	Purchased quantity	Cumulative Purchase by foreign investor	Quantity to be disinvested by the foreign investor
1410 hrs	LOP	150	1000	60
Total		1000		400

- xvii. As can be observed from the above table, the foreign investors/FPIs/NRIs which are required to disinvest shall be identified and shall be informed of the excess quantity that they are required to disinvest.
- xviii. In the case of FPIs which have been identified for disinvestment of excess holding, the depositories shall issue the necessary instructions to the custodians of these FPIs for disinvestment of the excess holding within 5 trading days of the date of settlement of the trades.
- xix. In the case of NRIs which have been identified for disinvestment of excess holding, the depositories shall issue the necessary instructions to the Authorized Dealer (AD) Banks for disinvestment of the excess holding within 5 trading days of the date of settlement of the trades.
- xx. The depositories shall utilize the FPI trade data provided by the custodians, post custodial confirmation, on T+1 day, where T is the trade date. The breach of investment limits (if any) shall be detected at the end of T+1 day and therefore, the announcement pertaining to the breach shall be made at the end of T+1 day. The foreign investors who have purchased the shares of the scrip during the trading hours on T+1 day shall also be given a time period of 5 trading days from the date of settlement of such trades, to disinvest the holding accruing from the aforesaid purchase trades. In other words, the purchase trades of such foreign investors which have taken place of T+1 day, shall be settled on T+3 day and thereafter a time period from T+4 day to T+8 day shall be available to them to disinvest their entire holding arising from purchases on T+1 day.
- xxi. If T+1 is a settlement holiday, then the custodial confirmation of the trade executed on T day shall be done on T+2 day and the subsequent settlement of the trade on T+3 day. In such a scenario, the breach would be detected at the end of T+2 day.
- xxii. A table summarizing the breach-disinvestment scenario is given below

Parameter	Purchase on T Day	Purchase on T+1
Date of breach	T day	T day
Date of trade	T day	T+1 day

Parameter	Purchase on T Day	Purchase on T+1
<i>Date of detection of breach</i>	T+1 day (End of day)	T+1 day (End of day)
	T+2 day (End of Day, if T+1 is a settlement holiday)	T+2 day (End of Day), if T+1 is a settlement holiday
<i>Date of settlement of transaction</i>	T+2 day T+3 day, if either T+1 day or T+2 day is a settlement holiday	T+3 day T+4 day, if either T+2 day or T+3 day is a settlement holiday
<i>Disinvestment time frame</i>	5 trading days from the date of settlement of the transactions which were executed on the day of the breach i.e. 5 trading days from T+2 day If T+1 day or T+2 day is a settlement holiday, then 5 trading days from T+3 day	5 trading days from the date of settlement of the transactions which were executed on T+1 day i.e. 5 trading days from T+3day If T+2 day or T+3 day is a settlement holiday, then 5 trading days from T+4 day

- xxiii. In the event the foreign shareholding in a company comes within permissible limit during the time period for disinvestment, on account of sale by other FPI or other group of FPIs, the original FPIs, which have been advised to disinvest, would still have to do so within the disinvestment time period, irrespective of the fresh availability of an investment headroom during the disinvestment time period.
- xxiv. There shall be no annulment of the trades which have been executed on the trading platform of the stock exchanges and which are in breach of the sectoral caps/aggregate FPI limits/aggregate NRI limits.

Failure to disinvest within 5 trading days

- xxv. If a breach of the investment limits has taken place on account of the FPIs and the identified FPIs have failed to disinvest within 5 trading days, then necessary action shall be taken by SEBI against the FPIs.

Fees

- xxvi. The Designated Depository shall levy reasonable fee/charges on the company towards development, ongoing maintenance and monitoring costs at an agreed upon frequency.

4.43 Disclosure of performance of CRAs on Stock Exchange and Depository website¹⁶²

Each CRA shall furnish data on sharp rating actions in investment grade rating category, as per the format specified in Annexure B, to Stock Exchanges and Depositories for disclosure on website on half-yearly basis, within 15 days from the end of the half-year (31st March/ 30th September).

Annexure B

Sharp rating actions in investment grade rating category
(Excluding non-cooperative issuers)

S. No.	Rating action	Number of ratings
1.	Number of rating downgrades of more than 3 notches	
2.	Number of downgrades to default from investment grade ratings	
3.	Number of rating upgrades of more than 3 notches	
4.	Number of outstanding ratings as on March 31/ September 30	

4.44 Handling of Clients' Securities by Trading Members/Clearing Members¹⁶³

4.44.1 In order to protect clients' funds and securities, The Securities Contracts (Regulation) Act, 1956 and Securities and Exchange Board of India (Stock-Brokers) Regulations, 1992 specifies that the stock broker shall segregate securities or moneys of the client or clients or shall not use the securities or moneys of a client or clients for self or for any other client.

4.44.2 Further, the following circulars were issued by SEBI from time to time detailing the operational modalities with respect to handling of client's funds and securities by stock broker (hereinafter referred to as 'Trading Member /Clearing Member' or TM/CM):

- a) Circular No. SMD/SED/CIR/93/23321 dated November 18, 1993:

In terms of clause 2 of the circular SEBI had inter alia specified that "it shall be compulsory for all member brokers to keep separate accounts for client's securities and to keep such books of accounts, as may be necessary, to

¹⁶² Reference circular SEBI/ HO/ MIRSD/ DOS3/ CIR/ P/ 2018/ 140 dated November 13, 2018

¹⁶³ Reference Circular CIR/HO/MIRSD/DOP/CIR/P/2019/75 dated June 20, 2019 and SEBI/HO/MIRSD/DOP/CIR/P/2019/95 dated August 29, 2019



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distinguish such securities from his/their own securities. Such accounts for client's securities shall, inter-alia provide for the following:-

- i. Securities fully paid for, pending delivery to clients;
- ii. Fully paid for client's securities registered in the name of Member, if any, towards margin requirements etc.

b) SEBI Circular No. MRD/DOP/SE/Cir - 11/2008 dated April 17, 2008:

In the said circular, SEBI had inter-alia specified that 'brokers should have adequate systems and procedures in place to ensure that client collateral is not used for any purposes other than meeting the respective client's margin requirements / pay-ins. Brokers should also maintain records to ensure proper audit trail of use of client collateral.

c) Circular no. SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 and Circular no. CIR/HO/MIRSD/MIRSD2/CIR/P/2017/64 dated June 22, 2017:

In the said circulars, SEBI had specified that "stock brokers shall not grant further exposure to the clients when debit balances arise out of client's failure to pay the required amount and such debit balances continues beyond fifth trading day, as reckoned from the date of pay-in, except in accordance with the margin trading facility provided vide SEBI circular CIR/MRD/DP/54/2017 dated June 13, 2017 or as may be issued from time to time"

d) Circular No. SEBI/HO/MRD/DP/CIR/P/2016/13 dated December 16, 2016:

In the said circular, SEBI had specified that "the member shall transfer securities from pool account to the respective beneficiary account of their client within 1 working day after the pay-out day. The securities lying in the pool account beyond the stipulated 1 working day shall attract a penalty at the rate of 6 basis point per week on the value of securities."

Therefore, in terms of the above provisions, all TM/CM are required to transfer the clients securities received in pay-out to clients demat account within one working day. In case the client does not pay for such securities received in pay-out, then the TM/CM shall be entitled to retain those securities up to five trading days after pay-out. Further,



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where the client fails to meet its funds pay-in obligation within five trading days from payout day, the TM/CM shall liquidate the securities in the market to recover its dues. Under no circumstances, shall the securities of the clients received in pay-out be retained by the TM/CM beyond five trading days and be used for any other purpose.

4.44.3 As per the provisions of the following circulars, TM/CM are permitted to provide running account for securities and create a lien on the client securities to the extent of the clients' indebtedness to the TM/CM.

- a) As per clause 12 of the SEBI circular on 'Dealings between a client and a Stock Broker' dated December 03, 2009 a client may specifically authorize the stock broker to maintain a running account of 'funds' and 'securities' subject to the specified conditions.
- b) As per clause 2.5 of SEBI circular on 'Enhanced Supervision of Stock Brokers/ Depository Participants' dated September 26, 2016 read with clause 2 (c) of SEBI circular CIR/HO/MIRSD/MIRSD2/CIR/P/2017/64 dated June 22, 2017, "a stock broker is entitled to have a lien on client's securities to the extent of the client's indebtedness to the stock broker and the stock broker may pledge those securities."

Referencing the above stated provisions, the TM/CM are transferring client's securities into their own account by way of title transfer and then placing such securities as a collateral to Banks/NBFCs and/or fulfilling securities shortages of other clients/proprietary trades which is not contemplated in the provisions of the SEBI circulars referred to in paragraph 4.44.2.

4.44.4 In order to provide clarity with respect to a TM/CM maintaining a running account¹⁶⁴ for client securities and pledging the client securities with Banks/NBFCs, after discussions with the Exchanges, Depositories and Clearing Corporations, the following is advised:-

- i. The securities received in pay-out against which payment has been made by clients, shall be transferred to the demat account of the respective clients within

¹⁶⁴Accordingly, the provisions with regard to running account settlement of clients' funds and securities specified in SEBI Circulars MIRSD/SE/Cir-19/2009 dated December 03, 2009 and SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 shall stand modified to the extent as stated hereinabove and the said circulars shall be applicable only as guidelines for running account settlement of clients' "funds" only



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one working day of the pay-out. Such securities shall be transferred directly from the pool account of the TM/CM to the demat account of the respective client.

- ii. With regard to securities that have not been paid for in full by the clients (unpaid securities), a separate client account titled – “client unpaid securities account” shall be opened by the TM/CM. Unpaid securities shall be transferred to such “client unpaid securities account” from the pool account of the concerned TM/CM.
- iii. The securities kept in the ‘client unpaid securities account’ shall either be transferred to the demat account of the respective client upon fulfilment of client’s funds obligation or shall be disposed off in the market by TM/CM within five trading days after the pay-out. The unpaid securities shall be sold from the Unique Client Code (UCC) of the respective client. Profit/loss on the sale transaction of the unpaid securities, if any, shall be transferred to/adjusted from the respective client account.
- iv. In case the clients’ securities are kept in the ‘client unpaid securities account’ beyond seven trading days after the pay-out, the depositories shall under their bye-laws levy appropriate penalties upon such TM/CM which shall not be permitted to be recovered from the client.
- v. SEBI circular (on Comprehensive Review of Margin Trading Facility) dated June 13, 2017 specifies that TM/CM shall maintain separate client wise ledger for funds and securities of clients availing margin trading facility. Accordingly, the securities that are bought under Margin Trading Facility, shall be kept in a separate account titled as – ‘Client Margin Trading Securities Account’.
- vi. Further said circular on Comprehensive Review of Margin Trading Facility also specifies that:
 - a) For the purpose of providing the margin trading facility, a stock broker may use own funds or borrow funds from scheduled commercial banks and/or NBFCs regulated by RBI. A stock broker shall not be permitted to borrow funds from any other source.
 - b) The stock broker shall not use the funds of any client for providing the margin trading facility to another client, even if the same is authorized by the first client.

Also, SEBI vide Circular No. MRD/DOP/SE/Cir – 11/2008 dated April 17, 2008 had specified that client collateral/securities shall not be used for the purposes other than meeting client's margin requirements/pay-in.

Referencing the above stated provisions, TMs/CMs are pledging collateral/securities of the clients with the Banks/NBFCs to borrow funds to meet the margin requirement of the clients/proprietary obligation which is not contemplated in the provisions of the aforesaid SEBI circular. In this regard, it is reiterated that the client securities received as collateral shall be used only for meeting the respective client's margin requirement by way of depositing the same with Stock Exchange/ Clearing Corporation/ Clearing House.

- vii. With effect from September 01, 2019, clients' securities lying with the TM/CM in "client collateral account", "Client Margin Trading Securities account" and "client unpaid securities account" cannot be pledged to the Banks/NBFCs for raising funds, even with authorization by client as the same would amount to fund based activity by TM/CM which is in contravention of Rule 8(1)(f) & 8(3)(f) of Securities Contracts (Regulation) Rules, 1957.
- viii. Further, the client's securities already pledged in terms of clause 2.5 of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 and clause 2 (c) of SEBI circular CIR/HO/MIRSD/MIRSD2/CIR/P/2017/64 dated June 22, 2017 shall, by August 31, 2019, either be unpledged and returned to the clients upon fulfilment of pay-in obligation or disposed off after giving notice of 5 days to the client¹⁶⁵.

4.44.5 Opening and reporting of Demat Accounts by TM/CM:

In order to implement the above, the following course of action shall be taken by TM/CM:

- a) All the existing client securities accounts opened by the TM/CM other than 'Pool account' (including 'Early Pay-in'), 'Client Margin Trading Securities account' and 'Client collateral account' shall be wound up on or before September 30, 2019. The TM/CM shall within one week of closure of existing

¹⁶⁵Clause 2.5 of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 and clause 2 (c) of SEBI circular CIR/HO/MIRSD/MIRSD2/CIR/P/2017/64 dated June 22, 2017 stands deleted with effect from June 30, 2019.

client accounts, inform the Stock Exchange/s the details in the following format:

Name of DP	Account Number/ Client ID	DP ID	Name of Account	PAN	Date of Closing

- b) TM/CM shall open the unpaid securities account latest by September 30, 2019 and inform the details of the same to the respective Stock Exchanges / Clearing Corporations within one week of opening of the unpaid securities account in the following format:

Name of DP	Account Number/ Client ID	DP ID	Name of Account	PAN	Date of Opening

- c) Any non-compliance/non reporting in this regard by the TM/CM shall attract penal action as per the bye-laws of Stock Exchanges.

4.44.6 Monitoring with respect to handling of clients securities:

Stock Exchanges, Clearing Corporations and Depositories shall put in place a mechanism for monitoring of the following:

- a) Handling of unpaid clients' securities by the TM/CM - Mechanism of matching of transfer of securities with the securities obligation as obtained from the clearing corporation with respect to the following:
 - i. Securities transferred from the client unpaid securities account to the pool account
 - ii. Securities transferred from the client unpaid securities account to the concerned client account,
 - iii. Securities transferred from pool account to the concerned client account
- b) All the DP accounts tagged as "Stock Broker – Client Account" are wound up before August 31, 2019.



- c) Securities lying with TM/CM in client collateral account, client margin trading securities account and client unpaid securities account shall not be permitted to be pledged/transferred to Banks/NBFCs for raising funds by TM/CM.

4.45 Early Warning Mechanism to prevent diversion of client securities¹⁶⁶

- 1. There have been instances where stock brokers had diverted clients' securities received as collaterals towards margin obligations and / or settlement obligations, for raising loan against shares on their own account and / or for meeting securities shortages in settlement obligations on its own account. However, such instances of diversion of securities come to light when stock broker failed in meeting the margin and/ or settlement obligations to Stock Exchange / Clearing Corporation.
- 2. It has been decided to put in place an Early Warning Mechanism and sharing of information between Stock Exchanges, Depositories and Clearing Corporations to detect the diversion of client's securities by the stock broker at an early stage so as to take appropriate preventive measures. The threshold for such early warning signals shall be decided by the Stock Exchanges, Depositories and Clearing Corporations with mutual consultation.
- 3. Early warning signals, for prevention of diversion of clients' securities, may include the following:
 - 3.1. Deterioration in financial health of the stock broker/ depository participant based on any of the following parameters:
 - a) Significant reduction in net worth over previous half-year / year.
 - b) Significant losses in the previous half years / years.
 - c) Delay in reporting of Annual Report, Balance Sheet, Internal Audit Reports, Risk Based Supervision (RBS) data and any other data related to its financial health to the Stock Exchanges/ Depositories.
 - d) Failure to submit information sought by the Stock Exchange/ Depositories on its dealing with related parties / promoters.
 - e) Significant mark-to-market loss on proprietary account/ related party accounts
 - f) Repeated instances of pay-in shortages.
 - g) Significant trading exposure or amount of loans or advances given to and investments made in related parties/ group.
 - h) Sudden activation of significant number of dormant client's accounts and/ or significant activity in the dormant account/s.
 - i) Significant number of UCC modifications.

¹⁶⁶ Reference Circular SEBI/HO/MIRSD/DOP/CIR/P/2018/153 dated December 17, 2018



- j) Resignation of Statutory Auditors or Directors.
- 3.2. Early warning signals in relation to securities pledge transactions by the stock broker to be identified by the Depositories and shall be shared with Stock Exchanges which may include:
 - a) Alerts for stock brokers maintaining multiple proprietary demat accounts and opening any new demat account in the name of stock broker for client purpose.
 - b) Movement of shares to/from a large number of clients' demat accounts or large value shares to stock broker proprietary accounts and vice a versa.
 - c) Transfer of large value of shares through off-market transfers other than for settlement purposes.
 - d) Invocation of pledge of securities by lenders against stock broker or his clients.
 - e) Significant depletion of client's shares in the stock broker client account maintained by the stock broker.
- 3.3. Increase in number of investor complaints against the stock broker / depository participant alleging un-authorized trading / unauthorized delivery instructions being processed and non-receipt of funds and securities and non-resolution of the same.
- 3.4. Alerts generated from the monthly/ weekly submissions made by stock broker under Risk Based Supervision (RBS) or Enhanced Supervision to the Stock Exchanges.
 - a) Non-recovery of significant dues from debit balance clients over a period of time.
 - b) Significant dues to credit balance clients over a period of time.
 - c) Failure by stock broker to upload weekly data regarding monitoring of clients' funds as specified in SEBI's circular on Enhanced Supervision, for 3 consecutive weeks.
 - d) Pledging securities in case of clients having credit balance and using the funds so raised against them for own purposes or for funding debit balance of clients.
 - e) Mis-reporting / wrong reporting about the client funds/securities.
 - f) Significant increase in RBS score.
- 3.5. Stock broker's terminal disabled for certain number of days in any segment / Stock Exchange in previous quarter.
- 4. Stock Exchanges and Depositories shall frame an internal policy / guidelines regarding non-cooperation by stock brokers and depository participants during inspections which



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shall lay down the time period, the type of documents critical for closing the inspections, which if not submitted, can be treated as non-cooperation.

- 4.1. Failure to submit data sought for inspections especially relating to bank / demat accounts, client ledgers etc. despite repeated reminders.
- 4.2. Failure to provide reasonable access to the records or any office premise
5. Stock Exchanges/ Clearing Corporations/ Depositories, shall devise a mechanism to detect diversion of clients' securities and to share information among themselves in respect of:
 - 5.1. Diversion of pay-out of securities to non-client accounts
 - 5.2. Mis-matches between gross (client-wise) securities pay-in and pay-out files of a stock brokers generated by the Clearing Corporation which shall be compared with actual transfer of securities to/from the client's depository accounts by the Depository. The cases of any mismatch found out by the Depository shall be informed to the concerned Stock Exchange / Clearing Corporation.
 - 5.3. Stock Exchange shall seek clarification from the concerned stock broker on the mismatches reported by Depository and identify transfer to a non-client / third party, without any trade obligation.
 - 5.4. Such information on wrong / fraudulent / unauthorized transfer shall be shared by the Stock Exchange with other Stock Exchange/s.
6. Any other alerts as the Stock Exchanges / Clearing Corporations and Depositories may deem fit.
7. Alerts triggered at one Stock Exchange / Clearing Corporation/ Depository through early warning mechanism shall be immediately shared with other Stock Exchanges / Depositories with respect to the stock broker / depository participant.
8. Based on the analysis of the early warning data, if it is established that the stock broker's financial health has deteriorated and/ or he has made unauthorized transfer of funds / securities of the client, in such cases Stock Exchanges / Depositories shall jointly take preventive actions on the stock broker which may include one or more of, but not limited, to the following:
 - 8.1. Actions to be initiated by the Stock Exchanges like:
 - a) Blocking of certain percentage of available collaterals towards margin.
 - b) Check securities register in respect of securities received and transferred against pay-in/pay-out against settlement and client's securities received as collateral.



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- c) Check details of funds and securities available with the clearing member, Clearing Corporation and the Depository of that stock broker.
- d) Impose limits on proprietary trading by the stock broker.
- e) Prescribe and monitor shorter time duration for settlement of Running Account of clients.
- f) Conduct meeting with the designated directors of the stock broker to seek appropriate explanation.
- g) Uniform action of deactivation of trading terminals by all Stock Exchanges based on the communication received from other Stock Exchange.
- h) Initiate inspection of the stock broker/depository participant.
- i) Cross check information submitted by stock broker with other independent sources like collateral details with the Clearing Corporation, transactions in Bank and Depositories, with statement collected directly etc.
- j) Where client money and securities diversion is suspected, appoint forensic auditor to trace trails of entire funds and securities of clients.

8.2. Actions to be taken by the Depositories:

- a) Restriction on further pledge of client securities from the client's account by freezing the stock broker client account for debit.
- b) Imposition of 100% concurrent audit on the depository participant.
- c) Cessation/ restriction on uses of Power of Attorney (POA) given to stock broker by clients mapped to such brokers only to meet settlement obligation of that client. Clients to issue instructions electronically or through Delivery Instruction Slip (DIS) for delivery of shares for off market transfers.

8.3. Any other measures that Stock Exchanges/ Clearing Corporations/ Depositories may deem fit.

4.46 Standard Operating Procedure in the cases of Trading Member / Clearing Member leading to default¹⁶⁷

- 4.46.1 With the introduction of uniform membership structure of Trading Member ("TM") and Clearing Member ("CM") across all segments, the TM shall make good the default of its clients to the CM and the CM shall make good the default of its clients / TM to the CC. The default of TM may not necessarily lead to default of CM, if the CM continues to fulfill the settlement obligation with the CC. To protect the interest of non-defaulting clients of a TM and / or non-defaulting clients / TM(s) of the CM, in

¹⁶⁷Reference SEBI Circular no. SEBI/HO/MIRSD/DPIEA/CIR/P/2020/115 dated July 01, 2020



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the likely event of default by TM / CM, there is a need for Standard Operating Procedure ("SoP") enumerating the steps to be taken by the SEs / CCs / Depositories in such cases where SE / CC is of the view that TM / CM is likely to default in repayment of funds or securities to its clients.

- 4.46.2 In order to harmonize the action amongst all SEs / CCs / Depositories in a time bound manner this SoP is laid down in consultation with SEs, CCs and Depositories so as to achieve uniformity in implementation of actions. The SoP lays down the actions to be initiated by the SEs / CCs / Depositories within a time frame after detection of the early warning signals as laid out in the Circular dated December 17, 2018 and other triggers as laid down in this circular until declaration of defaulter of TM / CM by the SE / CC. Once the TM is declared defaulter, the proceedings shall be in compliance with the bye-laws, rules and regulations of SE / CC respectively.
- 4.46.3 On analysis of early warning signals or any of the following triggers, if the SE / CC is of the view that the TM / CM is likely to default in the repayment of funds / securities to its clients and / or fail to meet the settlement obligations to CM / CC, where:
- a) There is shortage of funds / securities payable to the clients by Rs. 10 crore (SE may have their own criteria) and / or
 - b) TM / CM has failed to meet the settlement obligations to CM / CC and / or
 - c) There is sudden increase in the number of investor's complaints against the TM / CM for non-payment of funds and / or transfer of securities, the following actions shall be taken by Initiating Stock Exchange (ISE) / SEs / CCs and Depositories as per the timeline given below:

Sr. No.	Action	Timeline
3.1	Seek documents / explanation or Meeting with designated directors of TM.	Within 3 trading days of trigger
3.2	A limited purpose joint inspection of TM shall be initiated. ISE along with other SEs shall send a team of officials for taking possession of the copy of the books of accounts and other relevant records including but not restricted to securities register, trial balance, client master, bank books, debtors and creditors ledger (preferably in electronic mode) for the last	Within 3 trading days of the meeting / explanation with the designated directors



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	3 years (if available).	
3.3	a) The explanations offered by the designated director(s) of the TM shall be analysed by the ISE and based on the information available, to protect the interest of non-defaulting clients, as an interim measure, the trading terminal of the TM may be directed to be disabled by the Managing Director of the ISE for reasons to be recorded in writing. b) A preliminary assessment of assets and liabilities of the TM shall be completed by the ISE	Within 7 trading days of 3.2
3.4	ISE shall issue a notice / circular informing the disablement of the TM in all segments.	Within 1 day of Disablement
3.5	ISE shall communicate the decision of disablement of the trading terminal(s) of the TM along with detailed reasons for disablement to the TM and CM(s) with an advice to CM(s) to square-off open positions of TM and its clients.	Within 1 trading day of Disablement
3.6	ISE shall inform the Depositories about the disablement immediately and advice Depositories to freeze the demat accounts of the TM (including TM Pool Accounts). (ISE shall give specific instructions along with PAN to the Depositories). Any debit in the demat account of TM shall be made under supervision of ISE.	Within 1 trading day of disablement
3.7	ISE shall inform other SEs about the disablement immediately and the other SEs shall disable the said TM on receipt of information and the other SEs shall Issue a notice / circular in this regard.	Within 1 trading day of receipt of intimation of disablement from ISE
3.8	TM may also stand suspended to act as a client with any other TM / CM in any other segment / SEs.	Within 1 trading day of the date of receipt of information of disablement from



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		ISE
3.9	In case of open positions of clients / TM, CM shall liquidate / square off the open positions.	Within 15 trading days from the date of receipt of information by the CM.
3.10	a) All SEs shall immediately direct other TM / CM so as not to alienate the unencumbered surplus funds/ securities held by them for such TM registered as a client. b) CM shall invoke the BGs of TM and all unencumbered funds of TM to be transferred to SE on demand. CM shall also ensure that the BG do not expire in the intervening period else they shall invoke even before the receipt of instructions from SE.	Within 1 trading day of the date of receipt of information of disablement from ISE Upon instructions from SE
3.11	All SEs shall inform the CM / CC regarding pay-out proceeds due to the TM which shall be credited to the settlement account of the TM.	As and when payout is made
3.12	If the open position of clients of TM could not be liquidated / squared off, the re-pledged securities of the client of the TM lying with the CM in the Client Securities Margin Pledge Account and other identifiable collateral of the client of TM such as cash /Bank Guarantee (BG) / Fixed Deposit Receipts (FDR)/ Mutual Fund Units shall be taken / encashed over by CM wherever possible in accordance with guidelines issued in this regard from time to time.	Within 15 trading days from the date of receipt of information by the CM
3.13	All the securities lying in client unpaid securities account of the TM (CUSA) shall be liquidated by CM /CC / ISE and the	Within 15 trading days from receipt of information of



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	sale proceeds shall be credited to respective client's financial ledger. In this situation depository shall not levy any penalty on such transactions.	disablement from ISE
3.14	<p>a) ISE, in consultation with SEs / CCs, shall appoint a forensic auditor to conduct forensic audit of books of accounts of the concerned TM. All SEs shall obtain details of the free securities / collateral available with their respective CM and CC and provide to the forensic auditor.</p> <p>b) An assessment of assets and liabilities of the TM shall be undertaken by the forensic auditor. The liabilities to the clients for funds and securities shall be established with demarcation of securities belonging to the fully paid clients or partly paid /unpaid clients.</p>	<p>Within 15 trading days of disablement</p> <p>Within 3 weeks of appointment of forensic auditor</p>
3.15	ISE shall also provide a report to SEBI on the reasons for trigger, the meetings held with directors of the TM /CM and the outcomes of limited purpose inspection, the details of actions taken and proposed to be taken under the SoP and any other information that the ISE may deem relevant.	Within 30 trading days from the date of trigger
Action by Depositories		
3.16	Depositories to freeze the demat accounts of the TM (including TM Pool Accounts).	Within 1 trading day from the receipt of information of disablement
3.17	Depositories shall not allow new account opening by the DP (Defaulting TM / CM) and shall suspend all Power of Attorney in favour of the defaulting TM given by its clients.	Within 1 trading days from the date of receipt of information of disablement
3.18	If the TM is also a Depository Participant	Within 3 trading



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	(DP), the Depositories shall depute its officials / auditor to monitor the transactions in demat securities of the clients of TM and / or transfer the demat accounts of the clients to another DP.	days from the date of receipt of information of disablement
3.19	Depositories shall initiate concurrent audit for 100% verification of debit transfers executed from the client accounts and account closures processed by the DP.	Within 7 trading days from the date of receipt of information of disablement
3.20	Depositories shall provide the details of pledges that were invoked by Banks/ NBFCs with whom TM's own securities were pledged in the previous 30 days to the SE / CC.	Within 15 trading days from the date of receipt of information of disablement

Action by ISE/SEs/CCs and Banks

3.21	Issuance of instruction to the banks that the balance in all the bank accounts of TM / CM shall be frozen for debits by Banks.	Within 1 trading day of receipt of information of disablement
3.22	SEs to direct CCs / CM to invoke the unencumbered collateral deposits including BGs / FDRs	Within 1 trading day from disablement
3.23	CCs / CM shall secure the unencumbered collateral deposits, electronic balances in the depository accounts of the TM / CM, including BGs as per the directions received from SEs.	Within 1 trading day on receipt of information of disablement

Other actions by ISE/SEs/CCs

3.24	With regard to the restoration of securities of clients lying with the CM, post crystallization of balances in the financial ledger of clients by forensic auditor or as per the Auditor's certificate as may be provided by Member:	Within 30 trading days from crystallization of balances
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	<ul style="list-style-type: none">• ISE/ SE / CC shall endeavour to initiate the process to settle debit balance of such client accounts by selling their securities if such clients fail to clear their debit balance after giving notice period for 5days.• After reconciling the Register of Securities (ROS), the securities of the credit balance clients (fully paid clients) shall be restored to their respective demat accounts. <p>In this regard, the related parties of the trading member shall not be considered for settlement, for which the TM shall provide an undertaking to the SEs / CC.</p>	
3.25	<p>ISE / SEs / CCs shall endeavour to settle the claims of maximum number of clients by way of interim measures, under their supervision prior to issuing show cause notice (SCN) for declaring the TM a defaulter. The TM shall be instructed to pay small investors out of available funds and own resources (movable and immovable) under the supervision of the ISE / SEs.</p> <p>Further, the unencumbered deposits available with the SEs / CCs, after adjusting for any dues of the SE / CC and maintaining the minimum BMC, shall also be utilised for settling the credit balance of investors starting from the smallest amount. Also any surplus available with any SEs / CCs, shall be utilised for settling the credit balances of clients with respect to other SEs. BGs of the TM shall be invoked and also the FDRs shall be encashed for utilisation. SEs / CC may</p>	Within 30 trading days from crystallization of balances



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	<p>settle such clients in tranches.</p> <p>For this purpose, the balances of client will be netted across exchanges to arrive at the final credit balance due to such client.</p> <p>The TM shall furnish the proof of payment to the clients, to the SEs.</p> <p>In this regard, the related parties of the TM shall not be considered for settlement, for which the TM shall provide an undertaking to the SEs / CC. TM to provide indemnity to the SEs to make available the funds to meet any shortfall in meeting investor's claim (other than those who have withdrawn their claim). Clients withdrawing their claim will have to submit unconditional withdrawal letter to the SEs.</p>	
3.26	Issuance of SCN for declaration of TM as a defaulter and the list of members to whom the notice is issued shall be placed on the website of the SE and on such other place, as the relevant authority may deem fit.	After finalization of assets and liabilities as per forensic audit or audit by SEs
3.27	SEs shall intimate the clients about the issuance of the notice / SCN to declare the TM as defaulter including through email / SMS.	Within 3 trading days of the issuance of SCN

- 4.46.4 The above action shall equally apply to a likely event of default by a CM who is also a TM. However, in case of likely default of a Professional CM, the action to be initiated by the CM shall fall upon the CC.
- 4.46.5 As soon as TM is disabled that information shall be shared by ISE with all SEs / CCs. On receipt of such information respective SE shall also conduct their due diligence and may initiate action of disablement by issuing reasoned order by MD of SE concern. However, when SCN has been issued for declaring a TM / CM as a defaulter by any SE, its subsidiary / associate companies which are also member(s)

on other segment / SE / CC shall also be put in suspension mode. All their open positions shall be squared off and their assets shall be frozen.

- 4.46.6 Once the Member is disabled or SCN is issued for declaration of defaulter to TM / CM (whichever is earlier), no further Investor Grievance Redressal Committee (IGRC) / Arbitration meetings shall be conducted.
- 4.46.7 Default proceedings shall take place as per bye laws / rules / regulations of the SE / CC. If the member is also a DP, Depositories shall take action as per its bye laws for termination / transfer of its participant-ship based on record. SEs shall not expel the TM immediately until the default proceedings are completed.
- 4.46.8 The TM shall provide a list of all its bank accounts to the SEs /CCs and the SEs / CCs shall obtain an undertaking from the TM within 90 days from the date of issuance of these provisions, undertaking that the SEs / CCs shall be empowered to instruct the bank(s) of the TM to freeze the bank account(s) for debits. The draft of undertaking is enclosed at **Annexure A**.
- 4.46.9 The above SoP enumerates the minimum action which shall be initiated by the respective SEs / CCs / Depositories in accordance with law with effect from August 01, 2020. However, the respective SEs / CCs / Depositories are free to initiate any other actions as may be necessary in compliance with their bye laws / rules / regulations and / or to protect the interest of investors. The ISE / SEs/ CCs and Depositories are expected to follow the timelines with respect to each actions as enumerated, reasons shall be recorded in case of for any deviation in timelines prescribed.
- 4.46.10 Flexibility has been provided to the SEs/ CCs for modifying the Undertaking cum Indemnity bond they need to take from TMs/ CMs and suitably modify the draft undertaking wherever required¹⁶⁸.

Annexure A

To be on Stamp / Franked Paper of appropriate value and notarized

¹⁶⁸Reference Circular No. SEBI/HO/MIRSD/DOP/CIR/P/2020/193 dated October 01, 2020



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**AFFIDAVIT OF UNDERTAKING CUM INDEMNITY BOND TO BE SUBMITTED BY
MEMBER TO [NAME OF THE STOCK EXCHANGE / CLEARING
CORPORATION]**

This Undertaking cum Indemnity Bond is signed at Mumbai on this _____ day of _____, 20.

By

I/We, Member of [Name of The Stock Exchange / Clearing Corporation] (bearing Trading / Clearing No. _____), having office at,(hereinafter referred to as "Member", which expression, unless repugnant to the context or meaning thereof, shall be deemed to include its successors and assigns).

In favour of:

.....Ltd., [Name of the Stock Exchange / Clearing Corporation] a company incorporated under the Companies Act, 1956 having its registered office at(hereinafter referred to as "....", which expression shall, unless repugnant to the context or meaning thereof, be deemed to include its successors and assigns).

I/We hereby solemnly declare and undertake that:

Whereas the Securities and Exchange Board of India (hereinafter referred to as "SEBI") has issued circular dated July 01, 2020 on Standard Operating Procedure to be followed in the case of trading member/clearing member leading to default (hereinafter referred to as the "said circular").

Whereas in terms of the said circular the [Name of the Stock Exchange / Clearing Corporation] has amended its bye-laws and is empowered [Name of the Stock Exchange / Clearing Corporation] to issue instructions to the concerned bank/s to freeze the bank account/s maintained by the Member, for all debits / withdrawal by the Member in the event of a potential default by the Member in meeting its obligations to Stock Exchange / Clearing Member / Clearing Corporation and / or repayment of funds / securities to his / its clients.

Now, in consideration of the above, I / We do hereby agree and confirm unconditionally to undertake that:



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- 1) [Name of the Stock Exchange / Clearing Corporation] is empowered to instruct the concerned banks to freeze my / our bank accounts for all debits / withdrawals from such accounts. The details of bank accounts held by me/ us are as follows:
- 2) Any debits to such bank account, post freezing by the banks, shall be done only on the express instructions to the said banks by [Name of the Stock Exchange/ Clearing Corporation].
- 3) [Name of the Stock Exchange / Clearing Corporation] shall not be liable in any way to me/us for any losses, claims, penalties, proceedings / actions, damages, consequential or otherwise, arising there from or occasioned thereby.
- 4) No proceeding/suit/action/claims would be adopted by me/us against [Name of the Stock Exchange/ Clearing Corporation] for any act done with respect to issuance of instruction to the bank/s mentioned above for freezing of my/our account/s held with the bank/s.
- 5) I / We agree to indemnify and keep [Name of the Stock Exchange/ Clearing Corporation] and/or its successors/assigns indemnified from time to time, and at all times hereafter, against all claims, demands, damages, liabilities, proceedings, losses, actions, charges and expenses made or suffered or incurred or caused or likely to suffer / incur directly or indirectly, to [Name of the Stock Exchange/ Clearing Corporation] and/or its successors/assigns on account of freezing of my/our account/s held with bank/s.
- 6) I/ We shall keep the Bank appropriately notified of the obligations undertaken by me / us herein and authorizing them to honour the instructions from [Name of the Stock Exchange / Clearing Corporation].
- 7) I / We undertake that a revised Undertaking cum Indemnity Bond shall be submitted by me / us to [Name of the Stock Exchange / Clearing Corporation] within seven working days of opening of any new bank account or change in details of any existing bank account,
- 8) This Undertaking cum Indemnity Bond shall be binding on my / our successors, legal representatives and assigns.
- 9) I / We warrant that representations made by the undersigned / on behalf of the Member are true and correct.



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IN WITNESS WHEREOF, I/We hereby execute this Undertaking cum Indemnity Bond on the day, month and year above written.

Solemnly declared at _____)
this ____ day of _____, 20 ____) BEFORE ME

(Name of Designated Director)

(Name of Trading Member)

(with rubber stamp & SEBI Registration No.)

In the presence of:

- 1.
- 2.

Note: Board Resolution for execution of the said undertaking cum indemnity and authorization for signing the same should be enclosed alongwith the document.

4.47 *Mapping of Unique Client Code (UCC) with demat account of the clients*¹⁶⁹

4.47.1 Vide SEBI circular no. SEBI/HO/MIRSD/DOP/CIR/P/2018/153 dated December 17, 2018, Early Warning Mechanism was put in place to detect the diversion of client's securities by the stock broker at an early stage so as to take appropriate preventive measures. It, specified that Stock Exchanges / Clearing Corporations / Depositories, shall devise a mechanism to detect diversion of clients' securities and to share information among themselves in respect of:

- 1.1. Diversion of pay-out of securities to non-client/other client accounts.
- 1.2. Mis-matches between gross (client-wise) securities pay-in and pay-out files of a stock brokers generated by the Clearing Corporation which shall be compared with actual transfer of securities to/from the client's depository accounts by the Depository. The cases of any mismatch found out by the Depository shall be informed to the concerned Stock Exchange / Clearing Corporation.

4.47.2 In order to facilitate ease in reconciliation, it was considered necessary to map clients' Unique Client Code (UCC) with their demat accounts. Pursuant to the discussion with Stock Exchanges and Depositories, following mechanism for mapping of UCC with the demat account of the clients, shall be implemented:

¹⁶⁹Reference Circular No. SEBI/HO/MIRSD/DOP/CIR/P/2019/136 dated November15, 2019



- 1.1 UCC allotted by the trading member (TM) to the client shall be mapped with the demat account of the client.
- 1.2 A client may trade through multiple TMs in which case each such UCC shall be mapped with one or more demat account(s).
- 1.3 Stock Exchanges shall share the UCC data with the Depositories which shall include the PAN, segment, TM/CM code and UCC allotted. Such UCC data shall be shared with the Depositories on a one-time basis by November 30, 2019, and subsequently incremental data in respect of new UCCs created, shall be shared on a daily basis.
- 1.4 Depositories shall map the UCC data in the demat account based on the PAN provided in the UCC database.
- 1.5 Clients may make a request to their depository participants to delink or add UCC details which shall be processed by the Depository through depository participants. Before any addition of UCC in the demat account, the Depositories shall validate the same with the Stock Exchanges / client.
- 1.6 Stock Exchanges and Depositories shall have a mechanism in place to address clients' complaints with regard to UCC mapping with their demat accounts.
- 1.7 Stock Exchanges and Depositories shall have a mechanism in place to ensure that inactive, non-operational UCCs are not misused and also a mechanism to ensure that inactive, non-operational UCCs are weeded out in the process of mapping clients' UCC with their demat account.

4.47.3 Stock Exchanges and Depositories shall map the existing UCCs with the demat account of the clients latest by December 31, 2019.

4.48 Reporting for Artificial Intelligence(AI) and Machine Learning (ML) applications and systems offered and used by Market Infrastructure Institutions (MIIIs)¹⁷⁰

Background

¹⁷⁰ Reference Circular SEBI/HO/MRD/DOP1/CIR/P/2019/24 dated January 31, 2019

1. SEBI is conducting a survey and creating an inventory of the AI / ML landscape in the Indian financial markets to gain an in-depth understanding of the adoption of such technologies in the markets and to ensure preparedness for any AI / ML policies that may arise in the future.

Scope definition

2. Any set of applications / software / programs/ executable / systems (computer systems) cumulatively called application and systems, to carry out compliance operations / activities, where AI / ML is used for compliance or management purposes, is included in the scope of this circular. In order to make the scope of this circular inclusive of various AI and ML technologies in use, the scope also covers Fin-Tech and Reg-Tech initiatives undertaken by MIIs that involves AI and ML.
3. Technologies that are considered to be categorized as AI and ML technologies in the scope of this circular, are explained in Annexure A.

Regulatory requirements

4. All MIIs shall fill in the AI / ML reporting form (Annexure B) in respect of the AI or ML based applications or systems as defined in Annexure A offered or used by them, and submit the same in soft copy only at AI_MII_SE@sebi.gov.in (for stock Exchanges) / AI_MII_DEP@sebi.gov.in (for Depositories) / AI_MII_CC@sebi.gov.in (for Clearing Corporations) to SEBI on a quarterly basis within 15 days of the expiry of the quarter, with effect from quarter ending March 31, 2019.

Annexure A – Systems deemed to be based on AI and ML technology

Applications and Systems belonging but not limited to following categories or a combination of these:

1. Natural Language Processing (NLP), sentiment analysis or text mining systems that gather intelligence from unstructured data. – In this case, Voice to text, text to intelligence systems in any natural language will be considered in scope. E.g.: robo chat bots, big data intelligence gathering systems.
2. Neural Networks or a modified form of it. – In this case, any systems that uses a number of nodes (physical or software simulated nodes) mimicking natural neural networks of any scale, so as to carry out learning from previous firing of the nodes will be considered in scope. Eg: Recurrent Neural networks and Deep Learning Neural Networks



3. Machine learning through supervised, unsupervised learning or a combination of both. – In this case, any application or systems that carry out knowledge representation to form a knowledge base of domain, by learning and creating its outputs with real world input data and deciding future outputs based upon the knowledge base. E.g: System based on Decision tree, random forest, K mean, Markov decision process, Gradient boosting Algorithms.
4. A system that uses statistical heuristics method instead of procedural algorithms or the system / application applies clustering or categorization algorithms to categorize data without a predefined set of categories
5. A system that uses a feedback mechanism to improve its parameters and bases its subsequent execution steps on these parameters.
6. A system that does knowledge representation and maintains a knowledge base.

Annexure B - Form to report on AI and ML technologies – to be submitted quarterly

S/N	Head	Value
1	Entity SEBI registration number	
2	Registered entity category	
3	Entity name	
4	Entity PAN no.	
5	Application / System name	
6	Date used from	
7	Type of area where AI or ML is used (order execution / Surveillance / compliance / others). In case of others, please specify.	
8	What is the name of the Tool / Technology that is categorized as AI and ML system / Application and submissions are declared vide this response	<free text field>
9	How was the AI or ML project implemented	<Internally / through solution provider / Jointly with a solution provider or third party>



10	Are the key controls and control points in your AI or ML application or systems in accordance with circular(s) of SEBI that mandate/s cybersecurity control requirements	<free text field>
11	Is the AI / ML system included in the system audit	<Yes / No>
12	Describe the application / system and how it uses AI / ML	<free text field>
13	What safeguards are in place to prevent abnormal behavior of the AI or ML application / System	<free text field>

4.49 *Measures to expedite Dematerialisation of securities*¹⁷¹

1. In order to enable prompt execution of demat requests, Depositories shall provide additional details, such as PAN, Address and Residential status of investors in the DRF itself.
2. To include a provision in DRF to capture 2 signatures – one registered with DP at the time of demat account opening and the other registered with issuer/RTA at the time of allotment / transfer. The request submitted by BO would be only processed when both two signatures i.e. one registered with RTA and other registered with DP matches with two respective signatures on DRF. In case of mismatch of any of the two signatures the existing process of verifying signature may be followed.
3. To advise Depository Participants to update bank account details of all demat account holders in their records.

4.50 *Capacity Planning Framework for the Depositories*¹⁷²

1. The capacity planning framework of the Stock Exchanges and Clearing Corporations was reviewed by Technical Advisory Committee (TAC) of SEBI. Based on recommendations of the committee, circular no. CIR/MRD/DP/17/2015 dated October 08, 2015 was issued to the Stock Exchanges and Clearing Corporations with regard to their capacity planning.
2. Depositories have been identified as financial Market Infrastructure Institutions which facilitate and perform systemically critical functions in the securities market. In view of their importance in the smooth functioning of the securities market, the framework for capacity planning of the Depositories was also discussed in TAC. Based on

¹⁷¹ Reference: SEBI letter MRD/DoPII/DSAI/MIRSD/DOS3/OW/2018/28162/1 dated October 22, 2018

¹⁷² Reference: SEBI Circular No. SEBI/HO/MRD/DP/CIR/P/2017/29 dated April 03, 2017



recommendations of the committee, it has been decided to put in place following requirements for Depositories while planning capacities for their operations:

- a. The installed capacity shall be at least 1.5 times (1.5x) of the projected peak load.
 - b. The projected peak load shall be calculated for the next 60 days based on the per hour peak load trend of the past 180days.
 - c. The Depositories shall ensure that the utilisation of resources in such a manner so as to achieve work completion in 70% of the allocated time.
 - d. All systems pertaining to Depository operations shall be considered in this process including all technical components such as network, hardware, software, etc., and shall be adequately sized to meet the capacity requirements.
 - e. In case the actual capacity utilization exceeds 75% of the installed capacity for a period of 15 days on a rolling basis, immediate action shall be taken to enhance the capacity.
 - f. The actual capacity utilisation shall be monitored especially during the period of the day in which pay-in and pay-out of securities takes place for meeting settlement obligations.
3. Depositories shall implement suitable mechanisms, including generation of appropriate alerts, to monitor capacity utilisation on a real-time basis and shall proactively address issues pertaining to their capacity needs.

4.51 Enhanced Due Diligence for Dematerialization of Physical Securities¹⁷³

- 4.51.1 In terms of Regulation 40 of Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) (IV Amendment) Regulations, 2018 (LODR), transfer of securities held in physical mode is not permitted w.e.f. April 01, 2019. Standardised norms with respect to documentation / procedure for transfer of physical securities were issued vide SEBI circular No. SEBI/HO/MIRSD/DOS3/CIR/P/2018/139 dated November 06, 2018.
- 4.51.2 To augment the integrity of the system in processing of dematerialization request in respect of the remaining physical shares, the Depositories and the listed companies / RTAs are directed to implement the following due diligence process:

¹⁷³ Reference: SEBI Circular No. SEBI/HO/MIRSD/RTAMB/CIR/P/2019/122 dated November05, 2019



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- I. All Listed companies or their RTAs shall provide data of their members holding shares in physical mode, viz the name of shareholders, folio numbers, certificate numbers, distinctive numbers and PAN etc. (hereinafter, **static database**) as on March 31, 2019, to the Depositories, latest by December 31, 2019. The common format for this data shall be specified jointly by the Depositories and be communicated to Issuer companies / their RTAs.
- II. Depositories shall capture the relevant details from the static database as per clause I above and put in place systems to validate any dematerialization request received after December 31, 2019. Accordingly, the depository system shall retrieve the shareholder name(s) recorded against the folio number and certificate number in Static Data for each DRN request received after this date and validate the same against the demat account holder(s) name as available in the records of the Depositories.
- III. In case of mismatch of name on the share certificate(s) vis-à-vis name of the beneficial owner of demat account, the depository system shall generate flag / alert. In instances, where such flags / alerts have been generated, the following additional documents explaining the difference in name, as prescribed in paragraph 2 (b) of the cited SEBI circular of November 06, 2018, shall be sought, namely
- i. Copy of Passport
 - ii. Copy of legally recognized marriage certificate
 - iii. Copy of gazette notification regarding change in name
 - iv. Copy of Aadhar Card
- IV. In the case of complete mismatch of name on the share certificate(s) vis-à-vis name of the beneficial owner of demat account, the applicant may approach the Issuer company / RTA for establishing his title / ownership.



4.52 Committees at Market Infrastructure Institutions¹⁷⁴

1. There are three circulars pertaining to aforesaid subject viz. Circular No. [SEBI/HO/MRD/DOP2DSA2/CIR/P/2019/13](#) dated January 10, 2019, Circular No. [SEBI/HO/MRD/DOP2DSA2/CIR/P/2019/31](#) dated February 15, 2019, [SEBI/HO/MRD/DDAP/CIR/P/2020/16](#) dated January 28, 2020 and SEBI email dated February 06, 2020.
2. In order to ensure effective oversight of the functioning of depositories (hereafter referred as Market Infrastructure Institutions or MIIs), Regulation 30 of the SEBI (Depositories and Participants) Regulations, 2018 [SEBI (D&P) Regulations, 2018], mandates MIIs to constitute three functional committees and four oversight committees within each MII. A list of all such mandatory committees for MIIs along with their functions and detailed composition requirements is provided at [Annexure A](#).
3. Further, while the aforementioned annexure provides for the composition that is specific to each statutory committee at MII, the overarching principles for composition and quorum of the statutory committee at MIIs shall be as under, which shall be applicable to all committees with an exception for Grievance Redressal Committee (GRC) and Advisory Committee:
 - 2.1 On each committees at MIIs, except GRC and Advisory Committee, the number of Public Interest Directors (PIDs) shall not be less than the total of number of shareholder directors, Key Management Personnel (KMPs), independent external persons, etc. put together, wherever shareholder directors, KMPs, independent external persons, etc. are part of the concerned committee.
 - 2.2 PID shall be chairperson of each committee at MII.
 - 2.3 To constitute the quorum for the meeting of the MII committee, the number of PIDs on each of the committees at MIIs shall not be less than total number of other members (shareholder directors, KMPs, independent external persons, etc. as applicable) put together.
 - 2.4 The voting on a resolution in the meeting of the committees at MIIs shall be valid only when the number of PIDs that have cast their vote on such resolution is equal to or more than the total number of other members (shareholder directors, KMPs, independent external persons, etc., as applicable) put together who have cast their vote on such resolution.
 - 2.5 The casting vote in the meetings of the committees shall be with the chairperson of the committee.
 - 2.6 Apart from that specifically provided in the Annexure, whenever required, a committee may invite Managing Director, other relevant KMPs and employees of the MII. However, such invitee shall not have any voting rights.

¹⁷⁴ Circular No. [SEBI/HO/MRD/DOP2DSA2/CIR/P/2019/13](#) dated January 10, 2019, Circular No. [SEBI/HO/MRD/DOP2DSA2/CIR/P/2019/31](#) dated February 15, 2019, [SEBI/HO/MRD/DDAP/CIR/P/2020/16](#) dated January 28, 2020 and SEBI email dated February 06, 2020



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As regards the composition and quorum of GRC and Advisory Committee, the same shall be as prescribed in the enclosed Annexure A.

4. Further, MIIs are directed to adhere to the following:

3.1 Over and above the statutory committees mentioned at point 1 above, the committees that are mandated by relevant law for listed companies shall apply *mutatis mutandis* to MIIs.

3.2 MIIs shall lay down policy for the frequency of meetings, etc., for the statutory committees.

3.3 PIDs in Committees at MIIs:

3.3.1 SEBI (D&P) Regulations 2018 prescribes that a PID on the board of a MII shall not act simultaneously as a member on more than five committees of that MII.

3.3.2 It is clarified that the above limitation on maximum number of committees that a PID can be member of, shall be applicable only to statutory committees prescribed by SEBI under SEBI (D&P) Regulations, 2018, and circulars issued thereunder. The said requirement shall not be applicable to committees constituted under Companies Act, 2013, SEBI (Listing Obligations and Disclosure Requirements), 2015, amongst others.

3.3.3 In case of non-availability of adequate number of PIDs in a MII, the relevant MII shall take steps to induct more PIDs in order to fulfil the requirement of composition of committees within a MII.

3.4 Meeting of PIDs:

3.4.1 As per code of conduct for PIDs provided SEBI (D&P) Regulations 2018, the PIDs shall be required to meet separately every six months. It is added that all the PIDs shall necessarily attend all such meetings of PIDs

3.4.2 The objective of such meetings, shall include *inter alia* reviewing the status of compliance with SEBI letters/ circulars, reviewing the functioning of regulatory departments including the adequacy of resources dedicated to regulatory functions, etc. PIDs shall also prepare a report on the working of the committees of which they are member and circulate the same to other PIDs. The consolidated report in this regard shall be submitted to the governing board of the MIIs. Further, PIDs shall identify the important issues which may involve conflict of interest for the MII or may have significant impact on the market and report the same to SEBI, from time to time.

3.5 Independent external persons in committees at MIIs:

3.5.1 The independent external persons forming a part of committees shall be from amongst the persons of integrity, having a sound reputation and not having any conflict of interest. They shall be specialists in the field of work assigned to the



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committee; however, they shall not be associated in any manner with the relevant MII and its members.

3.5.2 MIIs shall frame the guidelines for appointment, tenure, code of conduct, etc., of independent external persons. Extension of the tenure may be granted to independent external persons at the expiry of the tenure, subject to performance review in the manner prescribed by SEBI for PIDs. Further, the maximum tenure limit of Independent external persons in a committee of MII shall be at par with that of PIDs, as prescribed under Regulation 25(3) of the SEBI (D&P) Regulations, 2018.

3.6 The existing MIIs shall submit a confirmation report to SEBI with regard to the formation and composition of the Committees listed out in the Annexure A and compliance with other norms prescribed in the circular, at the earliest but not later than three months from the date of the circular.

ANNEXURE-A: MANDATORY COMMITTEES FOR DEPOSITORIES:

Sr no	Name of Committee	Brief terms of reference	Composition
(I) FUNCTIONAL COMMITTEES :			
1	Member Committee	<ul style="list-style-type: none">• To scrutinize, evaluate, accept or reject applications for admission of members, transfer of membership as well as approve voluntary withdrawal of membership.• Formulate policy to deal with any disciplinary matters relating to the Participants, Clients, Issuer or its Registrar and Transfer Agent, Clearing Members, Clearing Corporations and other users. This shall include termination / disciplinary action against participants, suspending, expelling or imposing penalty on the participant, freezing the account of the participant,	<ul style="list-style-type: none">• A maximum of two key management personnel of the depositories can be on the committee one of which shall necessarily be the Managing Director of the depositories.• The committee may also include independent external persons.• SEBI may nominate members in the Committee, if felt necessary in the interest of securities market.• The number of PIDs shall not be less than the total of number of



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		<p>among others.</p> <ul style="list-style-type: none">• Based on the laid down policy, consider the cases of violations observed during inspection, etc. and impose appropriate regulatory measure on the members of the depositories.• While imposing the regulatory measure, the Committee shall adopt a laid down process, based on the 'Principles of natural justice'.	shareholder directors, KMPs and independent external persons put together.
2	Grievance Redressal Committee	<ul style="list-style-type: none">• Deal with the complaints referred to it by the depositories, hear the parties and resolve their complaints	<ul style="list-style-type: none">• The GRC shall comprise of a single person for claims up to Rs. 25 Lakh, whereas, for claims above Rs. 25 Lakh, the GRC shall comprise of three persons.• The GRC shall comprise of independent external persons with qualifications in the area of law, finance, accounts, economics, management or administration and experience in financial services, including securities market.• The members of GRC shall not be associated with a depository participant in any manner.• The disclosures and code of conduct prescribed under para



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			3.4 and 4 of SEBI circular Ref. No. CIR/MRD/DSA/24/2010 dated August 11, 2010, shall be applicable, as far as may be, to members of GRC also.
3	Nomination and Remuneration Committee	<ul style="list-style-type: none">• Identifying a Key management personnel, other than personnel as specifically provided in its definition under SEBI (D&P) Regulations, 2018.• Lay down the policy for compensation of key management personnel in terms of the compensation norms prescribed by SEBI.• Determining the compensation of KMPs in terms of the compensation policy.• Determining the tenure of a key management personnel, other than a director, to be posted in a regulatory department.• Selecting the Managing Director.• Framing & reviewing the performance review policy to carry out evaluation of every director's performance, including that of Public Interest Director (PID).• Recommending whether to extend the term of appointment of the PID.• Besides the above, it will also discharge the function as Nomination & Remuneration Committee under the	<ul style="list-style-type: none">• The Committee shall include only public interest directors.• However, independent external persons may be part of the committee for the limited purpose of recommendation relating to selection of Managing Director; wherein the number of PIDs shall not be less than the independent external persons.



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		Companies Act, 2013 and SEBI (LODR) regulations, 2015 as amended from time to time.	
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(II) OVERSIGHT COMMITTEES :

4	Standing Committee on Technology	<ul style="list-style-type: none">• Monitor whether the technology used by the depository remains up to date and meets the growing demands.• Monitor the adequacy of system capacity and efficiency.• Look into the changes being suggested to the existing software/hardware.• Investigate into the problems computerised depository system, such as hanging/ slowdown/ breakdown.• Ensure that transparency is maintained in disseminating information regarding slowdown/break down in the depository system.• The Committee shall submit a report to the Governing Board of the depository. The Board will deliberate on the report and suitable action/ remedial measure will be taken.• Explain any system outage related incidents to the governing board.• Review the implementation of board approved cyber security and resilience policy and its framework.• Such other matters in the scope as may be referred by the Governing Board of the	<ul style="list-style-type: none">• The Committee shall include at least two independent external persons proficient in technology.• The number of PIDs shall not be less than the total of number of shareholder directors and independent external persons put together.
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		depository and/or SEBI.	
5	Advisory Committee	<ul style="list-style-type: none">To advise the Depository on non-regulatory and operational matters including technology, charges and levies, amongst others.	<ul style="list-style-type: none">The number of PIDs shall not be less than the total of number of shareholder directors and depository participants put together.The Committee shall comprise of depository participants of the depository.The chairperson of the governing board shall be the head of the advisory committee.The managing director shall be a permanent invitee to every meeting of the advisory committee.
6.	Regulatory Oversight Committee	<ul style="list-style-type: none">To lay down procedures for the implementation of the Code of Ethics and prescribe the reporting formats for the disclosure required under the Code of Ethics.To oversee the implementation of the Code of Ethics.To periodically monitor the dealings in securities of the Key Management Personnel.To periodically monitor the trading conducted by firms/corporate entities in which the directors hold twenty percent or more beneficial interest or hold a controlling interest.	<ul style="list-style-type: none">The committee shall comprise of public interest director and independent external persons.The number of PIDs shall not be less than the total of number of independent external persons put together.Also shareholder director and key management personnel may be invitee to the committee.



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	<ul style="list-style-type: none">• To consider and decide on the criteria for admission, withdrawal of securities and continuous compliance requirements.• To declare any security admitted into Depository as ineligible.• To review complaint resolution process and status of redressal of grievances of demat account holders, depository participants, Issuers / RTAs with respect to depository operations. This shall include review of complaints remaining unresolved over long period of time, estimate the adequacy of resources, amongst others.• Annual review of arbitrators and arbitration awards (both quantum and quality of the awards).• To monitor compliance with SEBI (Depositories and Participants) Regulations, 2018 as amended from time to time and other applicable rules and regulations along-with SEBI Circulars and other directions issued thereunder.• To review the fees and charges levied by the Depository.• Review the actions taken to implement the suggestions of SEBI's Inspection Reports, place the same before the Governing Board of the depository.• To follow up and ensure compliance/implementation of	
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		the inspection observations.	
7	Risk Management Committee	<ul style="list-style-type: none">• To formulate a detailed risk management policy which shall be approved by the governing board.• To review the Risk Management Framework & risk mitigation measures from time to time.• To monitor and review enterprise-wide risk management plan and lay down procedures to inform Board members about the risk assessment and minimisation procedures.• The head of the risk management department shall report to the risk management committee and to the managing director of the depository.• The risk management committee shall monitor implementation of the risk management policy and keep the Board and the governing board informed about its implementation and deviation, if any.• Responsibilities and other requirements provided in SEBI circular Jan. 12, 2015.	<ul style="list-style-type: none">• The risk management committee shall comprise only of the public interest directors and independent external persons, and shall report to the Governing Board.• The number of PIDs shall not be less than the total of number of independent external persons.

4. Performance review of Public Interest Directors (PIDs)¹⁷⁵:

4.1 In respect of Public Interest Directors (PIDs) appointed in the governing board of MIIs, Regulation 25(3) of SEBI(D&P) Regulations, 2018, provides the following:

¹⁷⁵Reference Circular No. SEBI/HO/MRD/DOP2DSA2/CIR/P/2019/26 dated February 5, 2019



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"Public interest directors shall be nominated for a term of three years, extendable by another term of three years, subject to performance review in the manner as may be specified by the Board:

Provided that post the expiry of term(s) at the recognized stock exchange or the recognized clearing corporation / depository, a public interest director may be nominated for a further term of three years in other recognized clearing corporation or recognized stock exchange, or a depository, only after a cooling-off period of one year:

Provided further that a person may be nominated as a public interest director for a maximum of three terms across recognized stock exchanges / recognized clearing corporations / depositories, subject to a maximum age limit of seventy-five years."

4.2 For complying with the aforementioned regulation, while developing a framework for performance review of PIDs, MIIs need to consider the following:

4.2.1 Policy for Performance review of PIDs:

- 4.2.1.1 The Nomination and Remuneration committee (NRC) of the MIIs will be responsible for framing the performance review policy for PIDs.
- 4.2.1.2 Such performance review policy shall include criteria for performance evaluation, methodology adopted for such evaluation and analyzing the results, amongst others.
- 4.2.1.3 Performance review policy of PID shall include scope for both internal evaluation as well as external evaluation.
- 4.2.1.4 Further, as performance review is not a static process and requires periodical review, NRC shall also be responsible for reviewing such performance review policy, at least once in 3 years.
- 4.2.1.5 Such performance review policy and changes made therein, shall be approved by the governing board of MII.

4.2.2 Guiding criteria of Performance Review:

As a part of framing performance review policy, NRC shall be primarily responsible for formulation of performance evaluation criteria. The criteria for performance review of PIDs, which shall be considered for both internal evaluation and external evaluation, may be framed by NRC taking into consideration guiding principles provided at Annexure B. These principles would serve as a guidance for MIIs and the same may be

adopted by respective MIIs, as considered appropriate, with additional principles, if any.

4.2.3 Evaluation mechanism:

- 4.2.3.1** PIDs shall be subjected to internal evaluation as well as external evaluation, carrying equal weightage.
 - 4.2.3.2** Internal evaluation: All the governing board members shall evaluate the performance of each PID, on an annual basis at the end of every financial year.
 - 4.2.3.3** External evaluation: PIDs shall also be subject to external evaluation during their last year of the term in a MII, by a management or a human resources consulting firm. The consultant shall take into consideration the performance of the PID for the entire tenure served in a given MII, at least up to 4 months before expiry of his/ her term. In order to avoid any bias or conflict of interest, external consultant should not be a related party or associated with the MII, the concerned PID or any other governing board members.
 - 4.2.3.4** Such performance review should be carried out in fair & objective manner and the review should be recorded with clarity and verifiable facts in a standardized format covering all the relevant criteria / aspects.
 - 4.2.3.5** While evaluating conflict of interest of a PID, the governing board of MII shall also take into consideration provisions of Clause 2(d) of Schedule II Part C of SEBI (D&P) Regulations, 2018 under the head ‘Public Interest Director’; and conflict of interest, if any, of any PIDs should be disclosed to SEBI by the governing board with their comments/ views.
- 4.2.4 Disclosure:** Performance evaluation criteria for PIDs shall be disclosed in their annual report as well as on the website of the concerned MII.
- 4.2.5 Recommendation to SEBI:** After taking into account the performance of a PID in the concerned MII, on the basis of internal evaluation and external evaluation both carrying equal weightage, NRC shall consider and recommend extension of his / her tenure to the Governing Board of the MII. The Governing Board of the MII shall in-turn consider and recommend to SEBI if the tenure of the PID is desired to be extended by another term of three years.



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4.2.6 In addition to the other requirements prescribed in performance review policy of the MIIs along-with norms specified in SEBI (D&P) Regulations, 2018, the following may be considered by NRCs of MIIs:

- 4.2.6.1 It shall be ensured that the concerned PID hasn't remained absent for three consecutive meetings of the governing board and has attended seventy-five per cent of the total meetings of the governing board in each calendar year; failing which PID shall be liable to vacate office.
- 4.2.6.2 It shall be ensured that PIDs in the governing boards of MIIs are selected from diverse fields of work, in terms of their qualification and experience.

4.3 The application for extension of term of a PID shall be accompanied with the attendance details of PID in the meetings of various mandatory committees and of the governing board of the MII along-with specific reasons for seeking extension of his / her term as a PID. Such specific reasons shall include facts such as whether the concerned PID, during the term served, had identified any important issues concerning any matter which may involve conflict of interest, or have significant impact on functioning of MII, or may not be in the interest of securities market as a whole, and whether the PID had reported the same to SEBI.

4.4 In terms of SEBI (D&P) Regulations, 2018, it is clarified that a minimum of two names shall be submitted by MIIs at the time of making request for appointment of PID and extension of the term of existing PID, including appointment of PID for the purpose of broad basing the governing board, against each such vacancy.

4.5 It is clarified that the aforementioned norms specify the minimum requirements that have to be complied with by MIIs, however the NRCs of MIIs may adopt additional and more stringent norms while framing a policy for performance review of PIDs. With regard to the detailed criteria for performance evaluation, as provided in Annexure B to the circular, the same shall serve as an illustrative guide for MIIs to frame performance evaluation criteria -both for internal as well as external evaluation, and the same may be adopted by MIIs as considered appropriate, with additional criteria, if any.

4.5.1 Additionally, with regard to tenure of existing PIDs as on date of this circular, following is clarified:

- 4.5.1.1 The term of existing PIDs serving in a MII for more than three years, can be extended, subject to his / her performance review and a maximum tenure of 6 years as PID in that particular MII.



4.5.1.2 The term of existing PIDs, that have already served for six years or more in a single MII, shall not be eligible for further extension in that MII.

ANNEXURE-B

Guide for MIIs to frame criteria for performance review of PIDs:

- a. **Qualifications:** The PID's qualification in area of law, finance, accounting, economics, management, administration or an other area relevant to the financial markets, including any recent updates in this regard.
- b. **Experience:** The PID's prior experience in area of law, finance, accounting, economics, management, administration or any other area relevant to the financial markets, including any recent updates in this regard.
- c. **Knowledge and Competency:**
 - Whether the PID has sufficient understanding and knowledge of the entity in which it operates and the applicable regulatory norms.
 - Whether the PID has sufficient understanding of the role, responsibilities and obligations of PID under the relevant regulatory norms.
 - How the PID fares across different competencies as identified for effective functioning of Board of the concerned MII (The MII may list various competencies and mark all PIDs against every such competency e.g. Constructive and analytical decision making abilities).
 - Whether the PID has sufficient understanding of the risk attached with the business structure.
- d. **Fulfilment of functions:**
 - Whether the PID understands and fulfils the functions as assigned to him/her by the Board and the regulatory norms.
 - Whether the PID gives views and opinion on various regulatory matters when comments are invited by SEBI through various means.
- e. **Ability to function as a team:**
 - Whether the PID is able to function as an effective team- member.

- Whether the PID listens attentively to the contributions of others and gives adequate weightage to the views and perception of other Board members.
- Whether the PID shares good interpersonal relationship with other directors.

f. Initiative:

- Whether the PID actively takes initiative with respect to various areas.
- Whether the PID insists on receiving information necessary for decision making.
- Whether the concerned PID keeps himself well informed about the functioning of MII and the external environment in which it operates.
- Whether the PID remains updated in terms of developments taking place in regulatory areas.
- Whether the PID has identified any important issues concerning any matter which may involve conflict of interest for the concerned MII, or may have significant impact on their functioning, or may not be in the interest of securities market, and whether the PID reported same to SEBI.
- Whether the PID appropriately deals with critical matters.

g. Availability and attendance:

- Whether the PID is available for meetings of the Board and attends the meeting of Governing board and Committees regularly and timely, without delay. It must be ensured that the concerned PID hasn't remained absent for three consecutive meetings of the governing board and has attended seventy five per cent of the total meetings of the governing board in each calendar year; failing which the PID shall be liable to vacate office.

h. Commitment: Whether the PID is adequately committed to the Board and the MII.

i. Contribution:

- Whether the PID has contributed effectively to the entity and in the Board meetings.
- Whether the PID participates in the proceedings of Board meetings keeping in mind the interests of various stakeholders.
- Whether the PID actively deliberates and contributes on proposed business propositions and strategic decisions taking into consideration pros and cons of such propositions, long term outlook, business goals, cost-benefit analysis, etc.

j. Integrity:

- Whether the PID demonstrates highest level of integrity (including conflict of interest disclosures, maintenance of confidentiality, etc.).
- Whether the PID strictly adhere to the provisions of the SEBI SECC Regulations, 2018, SEBI (D &P) Regulations, 2018 and any other regulatory provision, as applicable, along-with the code of conduct and code of ethics prescribed under other applicable regulatory norms.
- Whether disclosures such as dealing in securities and other regulatory disclosures are provided by the PID on timely basis.
- Confirmation on the PID being a Fit & Proper person.
- Confirmation that the PID doesn't disclose confidential information, including technologies, unpublished price sensitive information, unless such disclosure is expressly approved by the Board of directors or required under the applicable laws.

k. Independence:

- Whether the PID is independent from the entity and the other directors and there is no conflict of interest.
- Confirmation as to non-association of the PID with relevant MII and its member.
- Whether the PID keeps regulators informed of material developments in the concerned MIIs functioning, from time to time.

l. Independent views and judgment:

- Whether the PID exercises his/ her own judgment and voices opinion freely.
- Whether the PID's participation in decisions taken during meetings are unbiased, based on ethical judgment and are in strict conformity to the applicable regulatory norms.
- Whether the PID raises his/her concern if anything is observed contrary to regulatory norms and the expected norms of ethical conduct.
- Whether the PID is committed to ensure that there is fairness and integrity in MIIs system, in letter as well as spirit.

4.53 *Operational Guidelines for FPIs & DDPs under SEBI (Foreign Portfolio Investors), Regulations 2019 and for Eligible Foreign Investors¹⁷⁶ and Exemption from clubbing of investment limit for foreign Government agencies and its related entities¹⁷⁷ and Write-off of shares held by FPIs¹⁷⁸*

4.53.1 SEBI (Foreign Portfolio Investors) Regulations, 2019 ("the Regulations") have been notified and have come into force with effect from September 23, 2019.

4.53.2 In order to operationalise the Regulations, necessary guidance under regulation 44 of the Regulations is issued to ensure efficient transition from SEBI (Foreign Portfolio Investors) Regulations, 2014.

4.53.3 SEBI vide notification dated December 19, 2019 amended the Securities and Exchange Board of India (Foreign Portfolio Investors) Regulations, 2019 and omitted the following regulation:

"Regulation 20 (9)

In cases where the Government of India enters into agreements or treaties with other sovereign Governments and where such agreements or treaties specifically recognize certain entities to be distinct and separate, the Board may, during the validity of such agreements or treaties, recognize them as such, subject to conditions as may be specified by it."

4.53.4 In line with rule 1(a)(iv) of Schedule II of Foreign Exchange Management (Non-debt Instruments) Rules, 2019 regarding "Investments by Foreign Portfolio Investors", certain foreign Government agencies and its related entities are exempt from clubbing of investment limit requirements and other investment conditions either by way of an agreement or treaty with other sovereign governments or by an order of the Central Government.

4.53.5 In view of the requests received from various stake holders, the FPIs are permitted to write-off shares of all companies which they are unable to sell. In this regard, the process detailed at para 17 of Part C of the said Operational Guidelines shall be complied with.

¹⁷⁶ Reference Circular IMD/FPI&C/CIR/P/2019/124 dated November 05, 2019

¹⁷⁷ Reference circular IMD/FPI&C/CIR/P/2020/07 dated January 16, 2020

¹⁷⁸ Reference circular SEBI/HO/IMD/FPI&C/CIR/P/2020/177 dated September 21, 2020

4.53.6 The **Operational Guidelines for FPIs & DDPs and EFIs** are enclosed.

4.54 Operational framework for transactions in defaulted debt securities post maturity date/ redemption date under provisions of SEBI (Issue and Listing of Debt Securities) Regulations, 2008¹⁷⁹:

- 4.54.1 Representations were received from market participants and investors to allow transactions in debt securities where redemption amount has not been paid on maturity/redemption date (referred as defaulted debt securities).
- 4.54.2 After detailed consultation with various stakeholders including market participants, investors, Debentures Trustee(s), Stock Exchange(s), Depositories etc., an operational framework for transactions in defaulted debt securities is introduced. It outlines the operational framework for transactions in defaulted debt securities and also prescribes the obligations of Issuers, Debenture Trustee(s), Depositories and Stock Exchange(s) while permitting such transactions.
- 4.54.3 The operational framework has been outlined in **Annexure A** and the same is also presented in a tabular form along-with timelines in **Annexure B**, for ease of reference.
- 4.54.4 Issuers, Debenture Trustee(s), Stock Exchanges and Depositories are advised to:
 - i. comply with the obligations laid down including mechanism for inter-depository and exchange coordination, wherever required;
 - ii. put in place necessary systems and infrastructure for its implementation.

Annexure A

Operational framework

As per existing practice, the Stock Exchanges suspend trading/reporting of trades on debt securities before the redemption date. Further, Depositories

¹⁷⁹Reference Circular No. SEBI/HO/DDHS/CIR/P/103/2020 dated June 23, 2020

impose restriction on off-market transfers on redemption date that restricts transfers on and after the redemption date.

These restrictions will be lifted on defaulted debt securities as per para 4 of the Annexure and after following procedure given in this Annexure.

1. Temporary restriction on transactions in debt securities:

1.1 Stock Exchange(s) shall not allow any transactions in the defaulted debt securities, two working days prior to their maturity/redemption date.

1.2 On maturity/redemption date of the defaulted debt securities Depositories shall temporarily restrict transactions in such debt securities from such maturity/redemption date till the time its status of payment is determined.

2. Intimation on status of payment:

2.1 Issuer shall intimate to the Stock Exchanges, Depositories and Debenture Trustee(s) the status of payment of debt securities within 1 working day of payment/redemption date.

Provided for debt securities in which default has occurred before the date of issuance of these norms, the issuer shall intimate the status of payment within 5 working days from the issuance of these norms.

2.2 Working day shall be the working day of the Stock Exchange on which the debt securities have been listed.

2.3 While intimating the status of payment to Debenture Trustee(s), Issuer shall also intimate to Debenture Trustee(s) that they have informed the status of payment or otherwise to the Stock Exchanges and Depositories.

3. Role of Debenture Trustee(s):

3.1 In case the Issuer fails to intimate the status of payment of the debt securities within stipulated timelines, then Debenture Trustee(s) shall seek status of payment from Issuer and/or conduct independent

assessment (from banks, investors, rating agencies, etc) to determine the same.

3.2 At the time of executing Debenture Trust Deed, Issuer shall provide its bank details (from which it proposes to pay the redemption amount) and pre-authorise Debenture Trustee(s) to seek debt redemption payment related information from the Issuer's bank. Issuer shall also inform the Debenture Trustee(s) of any change in bank details within 1 working day of such change.

For existing debt securities, Issuer shall provide such pre-authorisation to Debenture Trustee(s), within 60 days from the issuance of these norms.

3.3 Based on such assessment, Debenture Trustee(s) shall intimate Stock Exchange and Depositories the status of payment of debt securities within 9 working days of the maturity/redemption date.

3.4 In case intimation of the status of payment of debt securities is not received by Stock Exchanges and Depositories within stipulated timeline, transactions in such debt securities shall continue to be restricted and such restrictions shall continue until any further intimation is received from Issuer/ Debenture Trustee(s) regarding the status of payment of such debt securities.

4. Default in payment of redemption amount and resumption of transaction on defaulted debt securities:

4.1 Within 2 working days from the date of intimation from Issuer or Debenture Trustee(s) that issuer has defaulted on its payment obligations, the Depositories in co-ordination with Stock Exchanges shall update the ISIN master file and lift restrictions on transactions in such debt securities. Information regarding resumption of transactions

shall be disseminated immediately on the websites of both Depositories and Stock Exchange(s).

- 4.2 Depositories shall also immediately flag in the Corporate Bond Database such debt securities as "ISIN-defaulted in redemption" and its description shall mandatorily reflect that there was default in payment of redemption amount of the concerned debt securities.
5. Reporting of trades in defaulted Debt Securities on stock exchange platform:
- 5.1 Upon intimation by Depositories that transactions have been permitted in the defaulted debt securities, Stock Exchange(s) shall simultaneously but not later than 2 working days of the default intimation from Issuer/ Debenture Trustee(s), permit reporting of OTC trades in the concerned defaulted debt securities on its reporting platform in terms of SEBI circular no. CIR/MRD/DP/10/2014 dated March 21, 2014.
- 5.2 At the time of reporting of such trades, Stock Exchanges shall ensure that a pop-up window is flashed, specifying that the reported trade is in a defaulted debt security.
- 5.3 The trade repository shall flag such trades as "Trades in ISIN-defaulted in redemption".
6. Intimation of transactions in defaulted debt securities: In case of transactions in defaulted debt securities, the Depositories shall send an intimation (by email/SMS, as per BO a/c details available) to both parties to the transaction that it is "Transaction in ISIN-defaulted in redemption" immediately.
7. Account statement: While sending the periodic account statement to the Demat account holders, including Consolidated Account statement (CAS),

Depositories shall highlight in such statements that a particular debt securities is an "ISIN - defaulted in redemption".

8. Continuous assessment of default status:

- 8.1 The Issuer shall inform the Stock Exchange(s), Depositories and Debenture Trustee(s) latest by the 2nd working day of April of each financial year on the updated status of payment of the debt securities
 - 8.2 In case the Issuer fails to intimate the updated status of payment of the concerned debt securities, within the stipulated timelines, the Debenture Trustee(s) shall carry independent assessment as given at 3.1 above and intimate the status of payment of debt securities to the Stock Exchange and Depositories within 7th working day of April of each Financial Year.
 - 8.3 In case issuer or Debenture Trustee(s) does not intimate the status of payment of debt securities to Stock Exchanges and Depositories within the stipulated timeline, transactions in such debt securities shall be restricted from 8th working day of April of that Financial year, until any further intimation is received from Issuer or Debenture Trustee(s) regarding the same.
 - 8.4 In case of any developments that impact the status of default of the debt securities (including restructuring of debt securities, IBC proceedings, its repayment, etc.), the issuer/debenture trustee shall intimate the stock exchange and depositories within 1 working day of such development.
9. Payment of debt securities or subsequent payment of defaulted debt securities: In case of receipt of intimation or subsequent intimation to the depositories regarding full payment of redemption amount or any developments that impacts the status of default of the concerned debt securities (including restructuring of debt securities, IBC proceedings, its

repayment, etc.) from Issuer or from Debenture Trustee(s), transactions shall be restricted in such debt securities by the Depositories immediately. The same shall be informed to the Stock Exchange(s) and disseminated on respective Depositories' website, within one working day of such restriction. Further, the concerned ISIN shall be extinguished in the depository system on receipt of corporate action documents from the issuer towards its extinguishment.

10. Process in paras 8 and 9 above shall be followed till either Issuer has been liquidated and money has been realised after completion of recovery proceedings or full payment on these securities is made by Issuer.

Annexure B

	Event	Activity to be undertaken	Timeline (Working Days)	By	To
1.	Execution of Debenture trust deed	Pre authorization to seek debt redemption payment related information from issuer's bank	At the time of execution of the deed	Issuer	Debenture Trustee(s)
2.	Any change in bank details of issuer for making debt redemption payment	Information regarding updated bank details	Within 1 working day of event	Issuer	Debenture Trustee(s)
3.	Creation of ISIN / Listing of Debt Securities	Intimation of Redemption date	-	Issuer	1. Depositories 2. Stock Exchange(s)
4.	Redemption/ Maturity date	Non acceptance of trades for	T-2	Stock Exchange	-



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	(T day)	reporting/settlement			
5.		Temporary restriction on transaction in ISIN	T	Depository	-
6.		Intimate Status of payment of debt securities	T+1	Issuer	1. Stock Exchange(s) 2. Depositories 3. Debenture Trustee(s)
7.	Non receipt of status of payment from Issuer	Independent Assessment of Payment Status	T+2 to T+9	Debenture Trustee(s)	-
8.		Intimate Status of payment of debt securities	By T+9		1. Stock Exchange(s) 2. Depositories
9.	Receipt of information regarding full payment	Obligations as per para 9 of Annexure A	T+3/T+11/ event basis, as applicable		1. Depositories 2. Stock Exchanges
10.	Receipt of information regarding non payment	Obligations as per para 4-8 of Annexure A			1. Depositories 2. Stock Exchanges
<i>Continuous assessment of payment</i>					
11.	Any development that impacts the status of default of the concerned debt securities (including	Intimate updated Status of payment of debt securities	Within 1 working day of event	Issuer or Debenture Trustee(s)	1. Stock Exchange(s) 2. Depositories

	restructuring of debt securities, IBC proceedings, its repayment, etc.)				
12.	Continuous assessment of Payment	Intimate Status of payment of debt securities	2 nd working day of April every financial year	Issuer	1. Stock Exchange(s) 2. Depositories 3. Debenture Trustee(s)
13	Non receipt of status of payment from Issuer	Independent Assessment of Payment Status	3 rd working day of April – 7th working day of April of every financial year	Debenture Trustee(s)	
14		Intimate Status of payment of debt securities	Within 7 working days of April of every financial year		1. Stock Exchange(s) 2. Depositories

4.55 *Stealing of Customers data registered with NSE/ BSE*¹⁸⁰

4.55.1 Central Economic Intelligence Bureau, Department of Revenue, GOI brought to the notice of SEBI that certain fraudsters are collecting data of customers who already into trading either in NSE / BSE and send them bulk messages on the pretext of providing investment tips and luring them to invest with them in their bogus firms by promising

¹⁸⁰MIRSD email dated October 16, 2019

huge profits. In view of the above, there is need to sensitize, create awareness among investors about the same.

- 4.55.2 In this regard Stock exchanges and Depositories to advise, sensitize their stockbrokers, investors on the above issue and also that necessary steps, safeguards are taken so that data of the customers / investors registered with the Members / Participants are not shared or revealed to unauthorised persons.

4.56 Advisory regarding remote access and telecommuting¹⁸¹

4.56.1 In reference to the meeting of the Technical Advisory Committee held on April 30, 2020, the Market Infrastructure Institutions (MII) were advised to implement the following measures after taking into consideration the COVID-19 situation: -

1. The MII shall have proper remote access policy framework incorporating the specific requirements of accessing the enterprise resources securely located in the data centre from home, using internet connection.
2. For implementation of the concept of trusted machine as end users, the MII shall categorize the machines as official desktops/laptops and accordingly the same may be configured to ensure implementation of solution stack considering the requirements of authorized access. Official devices shall have appropriate security measures to ensure that the configuration is not tampered with. The MII shall ensure that internet connectivity provided on all official devices shall not be used for any purpose other than the use of remote access to data centre resources.
3. If personal devices (BYOD) are allowed for general functions, then appropriate guidelines should be issued to indicate positive and negative list of applications that are permitted on such devices. Further, these devices should be subject to periodic audit.

¹⁸¹MRD email dated May 18, 2020

4. The MII shall implement the various measures related to Multi-Factor Authentication (MFA) for verification of user access so as to ensure better data confidentiality and accessibility. VPN remote access through MFA shall also be implemented. It is clarified that MFA refers to the use of two or more factors to verify an account holder's claimed identity.
5. The MII shall ensure that the trusted machine is the only client permitted to access the data centre resources. The MII shall ensure that the Virtual Private Network (VPN) remote login is device specific through the binding of the Media Access Control (MAC) address of the device with the IP address to implement appropriate security control measures.
6. The MII shall explore a mechanism for ensuring that the employee using remote access solution is indeed the same person to whom access has been granted and not another employee or unauthorized user. A suitable video-recognition method has to be put in place to ensure that only the intended employee uses the device after logging in through remote access. The MII shall implement short session timeouts for better security. Towards this end, it is suggested that the MII may consider running a mandatory monitor on the device that executes:
 - a. At random intervals takes a picture with the webcam and uploads the same to the MII's server,
 - b. At random intervals pops up and prompts biometric authentication with a timeout period of a few seconds. If there is a timeout, this is flagged on the MII server as a security event.
7. The MII shall ensure that appropriate risk mitigation mechanisms are put in place whenever remote access of data centre resources is permitted for service providers.
8. Remote access has to be monitored continuously for any abnormal access and appropriate alerts and alarms should be generated to

address this breach before the damage is done. For on-site monitoring, the MII shall implement adequate safeguard mechanism such as cameras, security guards, nearby co-workers to reinforce technological activities.

9. The MII shall ensure that the backup, restore and archival functions work seamlessly, particularly if the users have been provided remote access to internal systems.
10. The MII is advised to exercise sound judgement and discretion while applying patches to existing hardware and software and apply only those patches which were necessary and applicable.
11. The Security Operations Centre (SOC) engine has to be periodically monitored and logs analyzed from a remote location. Alerts and alarms generated should also be analyzed and appropriate decisions should be taken to address the security concerns. The security controls implemented for the Remote Access requirements need to be integrated with the SOC Engine and should become a part of the overall monitoring of the security posture.
12. The MII shall update its incidence response plan in view of the current pandemic.
13. The MII shall implement cyber security advisories received from SEBI, CERT-IN and NCIIPC on a regular basis.

4.56.2 Further, all the guidelines developed and implemented during pandemic situation shall become SOPs post Covid-19 situation for future preparedness.

4.57 *Standard Operating Procedure (SOP) for Reporting of Technical Glitches by MIIs and Imposition of "Financial Disincentive*¹⁸²

4.57.1 Stock exchanges, Depositories and Clearing Corporations (collectively referred to as securities Market Infrastructure Institutions (MIIs)) are

¹⁸²SEBI Letter no. SEBI/HO/MRD/DOP1/OW/P/20062/7/2019 dated August 06, 2019

systemically important for the country's financial development and provide the infrastructure necessary for the securities market. A smooth and uninterrupted functioning of operations of the MIIs is essential for ensuring the continuity of the securities market. It is, therefore, critical for the MIIs to constantly monitor the performance of its systems and upgrade/ enhance its systems to avoid any possibility of a technical glitch.

- 4.57.2 However, incidents of technical glitches at MIIs were seen which have hindered the smooth functioning of the MIIs and hence the continuity of the securities market. In the event of such incidents, it should be incumbent on MIIs to address technical glitches in a timely manner by taking appropriate corrective actions to prevent recurrence of any such glitches. It was observed that despite ample time and opportunities, the MIIs are not forthcoming with the exact root cause for the disruption and appropriate corrective actions to prevent recurrence of such incident. In case of such lackadaisical approach by a MII, there is significant delay in addressing the technical glitch, leading to increased possibility of recurrence of glitch.
- 4.57.3 In case of failure to timely address technical glitches, MIIs shall be subject to imposition of "financial disincentive", which shall act as a deterrence for any lackadaisical approach in addressing technical glitches, and shall rather encourage them to constantly monitor the performance of their systems and upgrade/ enhance their systems to avoid any possibility of technical glitches.
- 4.57.4 A SOP for Reporting of Technical Glitches by MIIs and Imposition of "Financial Disincentive" for information and necessary compliance by the MIIs is given below.

Standard Operating Procedure (SOP) for Reporting of Technical Glitches by MIIs and Imposition of "Financial Disincentive"

Background

1. Stock exchanges, Depositories and Clearing Corporations are collectively referred to as securities Market Infrastructure Institutions (MIIs). These institutions are systemically important for the country's financial development and provide the infrastructure necessary for the securities market. A smooth and uninterrupted functioning of operations of the MIIs is

essential for ensuring the continuity of the securities market. It is, therefore, critical for the MIIs to constantly monitor the performance of its systems and upgrade/ enhance its systems to avoid any possibility of a technical glitch.

However, incidents of technical glitches at MIIs were seen which have hindered the smooth functioning of the MIIs and hence the continuity of the securities market. In the event of such incidents, it should be incumbent on MIIs to address technical glitches in a timely manner by taking appropriate corrective actions to prevent recurrence of any such glitches. It was observed that despite ample time and opportunities, the MIIs are not forthcoming with the exact root cause for the disruption and appropriate corrective actions to prevent recurrence of such incident. In case of such lackadaisical approach by a MII, there is significant delay in addressing the technical glitch, leading to increased possibility of recurrence of glitch.

In case of failure to timely address technical glitches, MIIs should be subject to imposition of “financial disincentive”, which shall act as a deterrence to MIIs for any lackadaisical approach in addressing technical glitches and shall rather encourage them to constantly monitor the performance of their systems and upgrade/ enhance their systems to avoid any possibility of technical glitches.

Definition of Technical Glitch

2. Technical glitch shall mean any malfunction in the systems of a MII. Malfunction in the systems of MII shall include malfunction in its (a) hardware, or; (b) software, or; (c) any products/ services provided by the MII, whether on account of inadequate infrastructure/ systems or otherwise, which may lead to either stoppage or variance in the normal functions/ operations of systems of the MII.

Reporting Requirements

3. The following reporting structure for technical glitches shall be adopted by the MIIs:

Sl. No.	Disruption	Reporting
1.	No business disruption	<ul style="list-style-type: none"> • Standing Committee on Technology • Governing Board of MII

2.	Business disruption	<ul style="list-style-type: none"> • Standing Committee on Technology • Governing Board of MII • SEBI
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3.1. With regard to incidents resulting in business disruption, the following shall be submitted by the MIIs to SEBI:

- (i) Information of technical glitch on immediate basis but not later than 2 hours from the time of occurrence of the glitch.
- (ii) Preliminary report within 24 hours of the occurrence of the glitch.
- (iii) Comprehensive root cause analysis and corrective action taken to address the glitch within 21 days of the incident. Such report shall be submitted to SEBI, after placing the same before the Standing Committee on Technology and the Governing Board of the MII and confirming compliance with their observations.

Placing before TAC

4. With regard to the incidents wherein business is disrupted, the root cause analysis and corrective action taken, as submitted by the MII, shall be placed before Technical Advisory Committee (TAC) of SEBI. TAC/ SEBI, if it so desires, may seek additional information/ clarification from the MII regarding the technical glitch.
5. In case TAC finds the action taken by the MII inadequate, based on the recommendations of TAC, the MII shall be required to address the technical glitch by taking appropriate corrective actions, within the timeline specified by TAC/ SEBI. While deciding such timeline, criticality of the malfunction and/or the services/ applications affected by the same shall also be taken into consideration.

Failure to timely submit root cause analysis

6. In case of delay in submission or submission of incomplete/ inadequate root cause analysis by a MII, a “financial disincentive” of Rs 25,000 per working day shall be imposed on the MII for each working day of delay from the timeline specified at Para 3.1(iii) above or any revised timeline specified by TAC/ SEBI for submission of exact root cause analysis.

Failure to timely address technical glitch

7. In order to ensure that MIIs address technical glitch within the timeline specified by TAC/ SEBI, following progressive slab-wise structure for

imposition of “financial disincentive” shall be followed from the expiry of the timeline specified by TAC/ SEBI.

No. of working days during which failure continues	Financial disincentive (Rs) per working day
First 15 working days	1 lakh per working day
Subsequent 15 working days	2 lakh per working day
Subsequent working days	5 lakh per working day

The “financial disincentive” specified above shall continue to accrue till the time the technical glitch is addressed by the MII by taking appropriate corrective actions.

Failure to restore operations within RTO

8. In case of a disaster, if a MII fails to restore its operations within the Recovery Time Objective (RTO), as published by the MII on its website/ stated in its BCP-DR Policy, a “financial disincentive” of Rs 25 lakh shall be imposed on the MII.
9. The amount of “financial disincentive” realized as per the above structure shall be credited by MII to Investor Protection and Education Fund administered by SEBI.
10. Imposition of aforesaid “financial disincentive” shall be irrespective of any other action(s) initiated/ taken by SEBI.

4.58 Standard Operating Procedure (SOP) for Reporting of Cyber Security Incidents/ breaches/ deficiencies by MIIs and Imposition of “Financial Disincentive¹⁸³

- 4.58.1 Stock exchanges, Depositories and Clearing Corporations are collectively referred to as securities Market Infrastructure Institutions

¹⁸³SEBI Letter no. SEBI/HO/MRD/CSC/OW/P/2019/22202/1 dated August 28, 2019

(MIIs). These institutions are systemically important for the country's financial development and provide the infrastructure necessary for the securities market. A smooth and uninterrupted functioning of operations of the MIIs is essential for ensuring the continuity of the securities market. It is, therefore, critical for the MIIs to constantly monitor the performance of their internal processes and systems and upgrade/ enhance their systems with respect to cyber security and cyber resilience so as to eliminate cyber security deficiencies and prevent or minimize the possibility of a cyber security breach.

- 4.58.2 However, incidents of technical and administrative lapses at MIIs were observed some of which have arisen due to non-compliance with the extant regulatory framework for cyber security and cyber resilience and which have hindered the smooth functioning of the MIIs and threatened the continuity of the securities market. In the event of such incidents, it should be incumbent on MIIs to address cyber security deficiencies and breaches in a timely manner by taking appropriate corrective actions. It was also observed that the MIIs were non-compliant with the extant regulatory framework for cyber security and cyber resilience in the cyber audit reports and reports from other agencies.
- 4.58.3 It is decided to levy a "Financial Disincentive" on MIIs in the event of the following cases:

- a) Non-compliance with the extant cyber security regulations and guidelines resulting in cyber security breaches, cyber attacks, cyber security deficiencies or any other cyber security incidents
- b) Lackadaisical approach or undue delay in addressing cyber security deficiencies and breaches
- c) Non-reporting/ delay in reporting a cyber security incident/ breach

The intent of this financial disincentive is to encourage MIIs to constantly monitor the performance of their systems and upgrade/ enhance their systems so as to eliminate cyber security deficiencies and prevent or minimize the possibility of a cyber security breach.

- 4.58.4 In this regard, a SOP for reporting of cyber security breaches and deficiencies by MIIs and imposition of "Financial Disincentive", is enclosed for information and necessary compliance.

Standard Operating Procedure (SOP) for Reporting of Cyber Security breaches, incidents and deficiencies and for Imposition of "Financial Disincentive on MIIs

Background

1. Stock exchanges, Depositories and Clearing Corporations are collectively referred to as securities Market Infrastructure Institutions (MIIs). These institutions are systemically important for the country's financial development and provide the infrastructure necessary for the securities market. A smooth and uninterrupted functioning of operations of the MIIs is essential for ensuring the continuity of the securities market. It is, therefore, critical for the MIIs to constantly monitor the performance of their internal processes and systems and upgrade/ enhance their systems with respect to cyber security and cyber resilience so as to eliminate cyber security deficiencies and prevent or minimize the possibility of a cyber security breach.
2. However, incidents of technical and administrative lapses at MIIs were observed some of which have arisen due to non-compliance with the extant regulatory framework for cyber security and cyber resilience and which have hindered the smooth functioning of the MIIs and threatened the continuity of the securities market. In the event of such incidents, it should be incumbent on MIIs to address cyber security deficiencies and breaches in a timely manner by taking appropriate corrective actions. It was also observed that the MIIs were non-compliant with the extant regulatory framework for cyber security and cyber resilience in the cyber audit reports and reports from other agencies.
3. However, in the event of a failure to do so, MIIs should be subject to imposition of "Financial Disincentive", for any lackadaisical approach in addressing cyber security deficiencies and breaches and shall rather encourage them to constantly monitor the performance of their systems and upgrade/ enhance their systems so as to eliminate cyber security deficiencies and prevent or minimize the possibility of a cyber security breach.

4. "*Cyber security deficiency*" shall be defined as loophole, vulnerability or non-compliance observed in
 - a. The MII's stated internal cyber security policy/cyber security protocol/operational guidelines/information security practices or
 - b. The cyber security guidelines specified by SEBI from time to time

Which threatens or compromises the security, confidentiality, integrity or availability of the MII's computer resource or cyber assets.
5. "*Cyber security incident*" shall be defined as any real or suspected adverse event in relation to cyber security that violates, explicitly, implicitly, applicable cyber security policy resulting in unauthorized access, denial of service or disruption, unauthorized use of computer resource for processing or storage of information or changes to data or information without authorization.
6. "*Cyber security breach*" shall be defined as any incident or security violation that results in unauthorized or illegitimate access or use by a person as well as an entity, of data, applications, services, networks and/or devices through bypass of the underlying cyber security protocols, policies and mechanisms resulting in the compromise of the confidentiality, integrity or availability of data/information maintained in a computer resource or cyber asset. A cyber security breach is a subset security incident.
7. "*Information security practices*" shall be defined as implementation of cyber security policies and standards in order to minimize the cyber security incidents and cyber security breaches.
8. "*Cyber security policy*" shall be defined as a set of documented business rules and processes for protecting information and the computer resource.
9. "*Cyber security protocol*" shall be defined as the official procedure or system of rules governing the cyber security operations of a MII. The cyber security protocol is usually as subset of the cyber security policy.
10. "*Operational guidelines*" refers to any additional set of rules and procedures issued internally by a MII that compliments its cyber security protocol and information security practices.

Reporting Requirements

11. The following reporting structure for cyber security deficiencies / breach shall be adopted by the MIIs:

Sn	Issue	Reporting
1.	Cyber Security Breach / Incident	<ul style="list-style-type: none"> • CERT-In • SEBI's Cyber Security Cell • Standing Committee on Technology of the MII • Governing Board of the MII
2.	Cyber Security Deficiencies	<ul style="list-style-type: none"> • Standing Committee on Technology of the MII • Governing Board of the MII • SEBI's Cyber Security Cell

Cases for levy of “Financial Disincentive”

12. The “Financial Disincentives” shall be levied in the following cases:

- Cyber Security breaches, cyber-attacks and any other cyber security incidents occurring on account of non-compliance of SEBI cyber security policies and guidelines and delay in reporting the Root Cause Analysis to SEBI in case of breaches, attacks and incidents.

For the above, a “Financial Disincentive of Rs.10,000,00/- {ten lakhs} shall be levied for

- each such cyber security breach, cyber-attack or any other cyber security incident on account of non-compliance of SEBI cyber security policies and guidelines
- delay in reporting the Root Cause Analysis to SEBI in case such breaches, attacks and incidents.
- for cyber security breaches, cyber-attacks and any other cyber security incidents occurring otherwise and where there is a delay in submission of the RCA reports.

SEBI prescribed a time period of two weeks from the date of the incident for submission of RCA reports.

- b. Cyber Security deficiencies occurring on account of non-compliance of SEBI cyber security policies and guidelines observed during biannual cyber security audits mandated by SEBI vide letter dated February 21, 2018 or reports from other agencies.

For the above, a “Financial Disincentive” of Rs.500,000/- {five lakhs} shall be levied for each such deficiency from the date of the report.

- c. A cyber security breach / incident should be reported as soon as it is discovered as per the reporting structure specified at Para 11. A “Financial Disincentive” of INR 10,000,00/- {ten lakhs} shall be levied on those MIIs that
 - i. Do not report a cyber security breach/incident, or
 - ii. Delay the reporting of the cyber security breach/incident
- d. Failure to timely address the cyber security deficiencies / breaches within the deadline set by SEBI/ HPSC-CS. The progressive slab-wise structure for imposition of “Financial Disincentives” shall be followed from the expiry of the deadline specified by SEBI/ HPSC-CS.

No. of working days post the stated deadline during which the deficiency / cause of breach is not addressed	“Financial Disincentive” (Rs) per working day
First 15 working days	1 lakh per working day
Subsequent 15 working days	2 lakh per working day
Subsequent working days	5 lakh per working day

13. Notwithstanding the reporting structure mentioned at Para 11 above, the penalties would start being levied by SEBI at Para 12 as mentioned above.

Proceeds to be credited to SEBI's IPEF

14. Further, with view to making such "Financial Disincentives" effective and meaningful, it is proposed that the amount realized from the same may be credited to the "Investor Protection and Education Fund" of SEBI in accordance with Section 11(1) of SEBI Act, 1992 read with Regulation 4(1)(j) of the SEBI (IPEF) Regulations, 2009, which is as follows:

Amounts to be credited to the Fund.

"4. (1) The following amounts shall be credited to the Fund:-

(a)...

(b)...

(j) such other amount as the Board may specify in the interest of investors."

15. The "Financial Disincentive" specified above shall continue to accrue till the time the issue has been addressed by the MII by taking appropriate corrective actions and the same has been validated by an independent third party.

16. The amount of "Financial Disincentive" realized as per the above structure shall be credited by MII to Investor Protection and Education Fund administered by SEBI as mentioned at Para 14 above.

17. Imposition of aforesaid "Financial Disincentive" shall be irrespective of any other action(s) initiated/taken by SEBI.

4.59 Implementation of Cyber Capability Index¹⁸⁴

¹⁸⁴SEBI/HO/MRD/CSC/OW/P/2019/28527/1 dated October 30, 2019 and SEBI/HO/MRD/CSC/OW/P/2019/28517/1 dated October 30, 2019 and MRD email dated November 04, 2019

- 4.59.1 SEBI issued cyber-security framework/guidelines to be implemented by all the MIIs. In this regard, SEBI developed a Cyber Capability Index to gauge the cyber security preparedness of the MIIs. The index consists of the below mentioned domains:
- (a) Governance of Critical Infrastructure and Personnel
 - (b) Identification of Critical Assets and Risks
 - (c) Protection of Critical Assets and Infrastructure
 - (d) Monitoring and Detection of Critical Assets/ Infrastructure and Detection of Intrusion/ Unauthorized Access
 - (e) Response and Recovery
 - (f) Sharing of Information
 - (g) Training
 - (h) Periodic Audit
- 4.59.2 Each of the eight domains contains a structured set of parameters. Each set of parameters shall determine the extent/level to which the organization has matured with respect to cyber security and cyber resilience in that domain.
- 4.59.3 Depositories are advised to rate itself on Cyber Capability Index based on the rating framework (given below) on a quarterly basis. Depositories are required to submit the score of the index and detailed breakup to its Standing Committee on Technology (SCOT) and its Governing board. The report on the completed maturity index rating is then required to be submitted to SEBI.
- 4.59.4 Depositories were requested to start rating itself from the quarter of July to September 2019. Subsequently, Depositories are requested to rate itself every quarter and submit the report to SEBI by 30th of subsequent quarter.

Please find Annexures containing the following :

- a. Annexure 1 - "MIL" containing Maturity Indicator Levels (MILs) &
- b. Annexure 2 - "Calculation" containing the illustration for Index calculation

Index Calculation Methodology

- 4.59.5 The 54 parameters for evaluation of cyber security and cyber resilience of a Market Infrastructure Institution (MII), as specified in the SEBI circular CIR/MRD/DP/13/2015 dated July 06, 2015, have been divided into 8 domains:
- i. Governance of Critical Infrastructure and Personnel
 - ii. Identification of critical assets and risks
 - iii. Protection of Critical Assets and Infrastructure
 - iv. Monitoring and Detection of Critical Assets/ Infrastructure and Detection of Intrusion/ Unauthorized Access
 - v. Response and Recovery
 - vi. Sharing of information
 - vii. Training
 - viii. Periodic Audit
- 4.59.6 Each parameter has various Maturity Indicator Levels (MIL). The MII shall apply a MIL independently to each parameter within a domain/ sub-domain. A MII aspiring to achieve the highest MIL for each and every parameter and therefore the highest possible score within a Domain, would be an ideal scenario.
- 4.59.7 MIL 1 represents non-compliance with the parameter and therefore shall be assigned a value of zero. At MIL 2 (for most parameters), only the initial set of practices for the parameter is expected. However, the MII should not be hindered from undertaking additional practices to achieve higher MILs for that parameter. MIL 2 shall be assigned a score of 1, MIL 3 shall be assigned a score of 2 and so on (i.e. MIL <n> shall have a score of (n-1)).
- 4.59.8 For the purpose of being evaluated and rated on the Cyber Capability Index, a MII has to fulfill the minimum cut-off score for each of the 8 domains and 9 sub-domains. A MII is declared “Fail” in the evaluation process when it scores below the cut-off in at least one Domain/Sub-Domain, even if the overall index score is greater than or equal to 50.
- 4.59.9 The Domain-wise minimum cut-off scores and weightages in the index have been provided in the worksheet “Calculation” in the excel file. The worksheet contains three sample index scores and their calculations:

- a. Index on maximum permissible score for every parameter (100)
- b. Index on minimum cut-off score for every parameter (50)
- c. Index on a random sample score for every parameter (89.02)

4.59.10 The formula for calculation of the Cyber Capability Index is as follows:

$$\text{Index} = \sum (ScoreParameter_i * Weight_i (\%)) * 100 / MaxParameter_i$$

where i ranges from 1 to 53

$ScoreParameter_i$ is the score of the MII for that parameter

$Weight_i (\%)$ is the weightage, in percentage, of the parameter in the index

$MaxParameter_i$ is the maximum permissible value of that parameter

Score based Rating

4.59.11 Based on the value of the index, the cyber security maturity level of the MIIs shall be determined as follows:

Sr No	Rating	Index Score Range
1	Exceptional Cyber Security Maturity	90-100
2	Optimal Cyber Security Maturity	80-90
3	Manageable Cyber Security Maturity	70-80
4	Developing Cyber Security Maturity	60-70
5	Bare Minimum Cyber Security Maturity	50-60
6	FAIL	Not applicable as the MII has scored below the cut-off in at least one Domain / Sub-Domain

4.59.12 Based on the sample index scores calculated in the worksheet and the abovementioned details, the sample scores would be categorized as follows (for illustrative purposes):

Sr No	Rating	Index Score
1	Exceptional Cyber Security Maturity	100
2	Optimal Cyber Security Maturity	89.02
3	Bare Minimum Cyber Security Maturity	50

Action Point

- 4.59.13 Depositories are advised to rate their systems and processes on the Cyber Capability Index on a quarterly basis. Additionally, they are required to submit their quarterly index scores along with the detailed breakup to their Standing Committee on Technology (SCOT) and their Governing Board.
- 4.63.1 Depositories are advised to commence the rating exercise from the quarter ending September 30, 2019. Thereafter, the rating exercise shall be done every quarter and the corresponding reports shall be submitted within 30 calendar days of the end of that quarter.

ANNEXURE 1

S.No	Parameter	Maturity Indicator Level (MIL)	No of Levels	Maximum Permissible Score
Domain : Governance of Critical Infrastructure and Personnel				
1	As part of the operational risk management framework to manage risk to systems, networks and databases from cyber attacks and threats, MII should formulate a comprehensive cyber security and cyber resilience policy document encompassing the framework mentioned hereunder. The policy document should be approved by the Board, and in case of deviations from the suggested framework, reasons for such deviations should also be provided in the policy document. The	MIL 1: No cyber security policy document. MIL 2: Policy approved by the Board. No deviations from suggested framework or if deviations observed, reasons provided. MIL 3: Policy document reviewed by MIIs Board at least annually.	4	3

	<p>policy document should be reviewed by the MII's Board atleast annually with the view to strengthen and improve its cyber security and cyber resilience framework.</p>	<p>MIL 4: Policy document includes security framework more stringent than SEBI guidelines/ policy document reviewed multiple times during the year.</p>		
2	<p>The cyber security and cyber resilience policy should include the following process to identify, assess, and manage cyber security risk associated with processes, information, networks and systems.</p> <ul style="list-style-type: none"> a. 'Identify' critical IT assets and risks associated with such assets, b. 'Protect' assets by deploying suitable controls, tools and measures, c. 'Detect' incidents, anomalies and attacks through appropriate monitoring tools / processes, d. 'Respond' by taking immediate steps after identification of the incident, anomaly or attack, e. 'Recover' from incident through incident management, disaster recovery and business continuity framework. 	<p>MIL 1: No cyber security policy document.</p> <p>MIL 2: Policy document includes ad-hoc process to identify, assess and manage cyber security risk.</p> <p>MIL 3: Policy document includes planned and documented process to identify, assess and manage cyber security risk.</p>	3	2

3	<p>The Cyber security policy should encompass the principles prescribed by National Critical Information Infrastructure Protection Centre (NCIIPC) of National Technical Research Organisation (NTRO), Government of India in the report titled 'Guidelines for Protection of National Critical Information Infrastructure' and subsequent revisions, if any, from time to time.</p>	<p>MIL 1: No cyber security policy document.</p> <p>MIL 2: Policy document includes principles prescribed by NCIIPC, NTRO and Government of India</p> <p>MIL 3: Policy document is being revised annually to include changes prescribed by NCIIPC, NTRO and Government of India.</p> <p>MIL 4: Policy document is being revised multiple times in a year to include changes prescribed by NCIIPC, NTRO and Government of India.</p>	4	3
4	<p>MII should also incorporate best practices from standards such as ISO 27001, ISO 27002, COBIT 5, etc., or their subsequent revisions, if any, from time to time.</p>	<p>MIL 1: No cyber security policy document.</p> <p>MIL 2: Policy document includes best practices from standards such as ISO 27001, ISO 27002, COBIT 5, etc.</p> <p>MIL 3: Policy document is being revised annually to include best practices from standards such as ISO 27001, ISO 27002, COBIT 5, etc.</p> <p>MIL 4: Policy document is being revised multiple times in a year to include best practices from standards such as ISO</p>	4	3

		27001, ISO 27002, COBIT 5, etc.		
5	MII should designate a senior official as Chief Information Security Officer (CISO) whose function would be to assess, identify and reduce cyber security risks, respond to incidents, establish appropriate standards and controls, and direct the establishment and implementation of processes and procedures as per the cyber security and resilience policy approved by the Board of the MII.	<p>MIL 1: No CISO appointed</p> <p>MIL 2: CISO appointed without well-defined functions.</p> <p>MIL 3: CISO appointed with well-defined functions as per the cyber security and resilience policy.</p> <p>MIL 4: The functions of CISO are reviewed periodically and modified accordingly.</p>	4	3
6	The Oversight Standing Committee on Technology of the stock exchanges and of the clearing corporations and the IT Strategy Committee of the depositories should on a quarterly basis review the implementation of the cyber security and resilience policy approved by their Boards, and such review should include review of their current IT and cyber security and resilience capabilities, set goals for a target level of cyber resilience, and establish a plan to improve and strengthen cyber security and cyber resilience.	<p>MIL 1: No review conducted.</p> <p>MIL 2: Review conducted with less frequency than advised.</p> <p>MIL 3: Review conducted quarterly and only shortcomings as pointed out addressed</p> <p>MIL 4: Committee reviewed quarterly and also provided inputs to improve the strengthen cyber security framework which have been carried out.</p>	4	3

7	MII should establish a reporting procedure to facilitate communication of unusual activities and events to CISO or to the senior management in a timely manner.	<p>MIL 1: No procedure established to facilitate communication of unusual activities and events to CISO or to the senior management in a timely manner.</p> <p>MIL 2: Procedure established to facilitate communication of unusual activities and events, but not till the level of CISO.</p> <p>MIL 3: Procedure established to facilitate communication of unusual activities and events to CISO or to the senior management in a timely manner.</p> <p>MIL 4: Procedure established to facilitate communication of unusual activities and events to MD/CEO and the Governing Board.</p>	4	3
8	The aforementioned committee and the senior management of the MII, including the CISO, should periodically review instances of cyber attacks, if any, domestically and globally, and take steps to strengthen cyber security and cyber resilience framework.	<p>MIL 1: No review of cyber-attacks is conducted.</p> <p>MIL 2: Review of cyber-attacks is conducted, but no remedial action is taken.</p> <p>MIL 3: Periodic review of cyber-attacks is conducted and prompt remedial action is taken.</p> <p>MIL 4: Periodic review of</p>	4	3

		cyber-attacks is conducted and remedial action is taken. Preventive steps to counter similar attacks is also undertaken.		
9	MII should define responsibilities of its employees, outsourced staff, and employees of vendors, members or participants and other entities, who may have access or use systems / networks of MII, towards ensuring the goal of cyber security.	<p>MIL 1: Responsibilities of personnel who may have access or use systems/networks is not defined.</p> <p>MIL 2: Responsibilities of personnel who may have access or use systems/networks is mentioned but not clearly defined.</p> <p>MIL 3: Responsibilities of personnel who may have access or use systems/networks are clearly defined.</p> <p>MIL 4: Responsibilities of personnel who may have access or use systems/networks are defined. The same are periodically reviewed and revised accordingly.</p>	4	3

Domain : Identification critical assets and risks

10	MII should identify critical assets based on their sensitivity and criticality for business operations, services and data management. To this end, MII should maintain up-to-date inventory of its hardware and systems, software and information assets (internal and external), details of its	<p>MIL 1: MII has not identified any critical assets and is not maintaining any inventory of its hardware, software and information assets.</p> <p>MIL 2: MII has identified</p>	5	4
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	<p>network resources, connections to its network and data flows.</p>	<p>critical assets however is not maintaining any inventory of its hardware, software and information assets.</p> <p>MIL 3: MII has identified critical assets and is maintaining a basic inventory of its hardware, software and information assets.</p> <p>MIL 4: MII has identified critical assets and is maintaining a basic inventory of its hardware, software and information assets and is reviewing the same at least half-yearly.</p> <p>MIL 5: MII has identified critical assets and is maintaining a basic inventory of its hardware, software and information assets and is reviewing the same at least half-yearly. (Including its shadow inventory.)</p>		
11	<p>MII should accordingly identify cyber risks (threats and vulnerabilities) that it may face, alongwith the likelihood of such threats and impact on the business and thereby, deploy controls commensurate to the criticality.</p>	<p>MIL 1: MII has not identified / categorized / envisaged cyber threats.</p> <p>MIL 2: MII has identified / maintained a Software / Hardware inventory but has not categorized / envisaged cyber threats.</p>	4	3

		<p>MIL 3: MII has identified / maintained a Software / Hardware inventory and has categorized / envisaged probable cyber threats prevalent to the sector.</p> <p>MIL 4: MII has identified / maintained a Software / Hardware inventory and has categorized / envisaged probable cyber threats based on its deployed architecture and network architecture.</p>		
12	MII should also encourage its third-party providers, such as service providers, stock brokers, depository participants, etc. to have similar standards of Information Security.	<p>MIL 1: MII has an outsourcing policy that does not enlist such a clause for its third party vendors.</p> <p>MIL 2: MII has an outsourcing policy that does not enlist such a clause for its vendors.</p>	2	1

Domain : Protection of Critical Assets and Infrastructure

Sub-Domain : Access Controls

13	No person by virtue of rank or position should have any intrinsic right to access confidential data, applications, system resources or facilities.	<p>MIL 1: MII has no documented and approved data classification methodology.</p> <p>MIL 2: MII has a documented and approved data classification methodology, however (any one) the previous 3 System Audits have pointed out observations pertaining to access matrices or</p>	3	2
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		<p>email ids/ login ids of ex-employees.</p> <p>MIL 3: MII has a documented and approved data classification methodology, and none of the previous 3 System Audits have pointed out observations pertaining to access matrices or email ids/ login ids of ex-employees.</p>		
14	Any access to MII's systems, applications, networks, databases, etc., should be for a defined purpose and for a defined period. MII should grant access to IT systems, applications, databases and networks on a need-to-use basis and based on the principle of least privilege. Such access should be for the period when the access is required and should be authorized using strong authentication mechanisms.	<p>MIL 1: MII has no documented and approved access control methodology for systems, applications, networks, databases of the MII.</p> <p>MIL 2: MII has a documented and approved access control methodology for systems, applications, networks, databases of the MII. However the System Audit / Comprehensive review has highlighted observations pertaining to the same.</p> <p>MIL 3: MII has a documented and approved access control methodology for systems, applications, networks, databases of the MII. and the System Audit / Comprehensive review has no observations pertaining to the same.</p>	4	3



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		MIL 4 : MII has a documented and approved access control methodology for systems, applications, networks, databases of the MII. and the System Audit / Comprehensive review has no observations pertaining to the same. The MII policy for the same has a defined timelines for review.		
15	MII should implement strong password controls for users' access to systems, applications, networks and databases. Password controls should include a change of password upon first log-on, minimum password length and history, password complexity as well as maximum validity period. The user credential data should be stored using strong and latest hashing algorithms.	MIL 1: MII has no documented and approved password policy encompassing the requirements of the clause. MIL 2: MII has a documented and approved password policy however the same does not completely encompass the requirements of the clause. MIL 3: MII has a documented password policy encompassing the requirements of the clause, however the same is not approved.	3	2
16	MII should ensure that records of user access are uniquely identified and logged for audit and review purposes. Such logs should be maintained and stored in encrypted form for a time period not less than two (2) years.	MIL 1: MII does not have an explicit (documented and approved) data retention and log management and rotation policy with relevant SOPs for the same. MIL 2: MII has an explicit (documented and approved)	3	2

		<p>data retention and log management and rotation policy with relevant SOPs for the same. However the System Audit / Comprehensive review has highlighted observations pertaining to the same.</p> <p>MIL 3: MII has an explicit (documented and approved) data retention and log management and rotation policy with relevant SOPs for the same. And the System Audit / Comprehensive review has highlighted no observations pertaining to the same.</p>		
17	MII should deploy additional controls and security measures to supervise staff with elevated system access entitlements (such as admin or privileged users). Such controls and measures should inter-alia include restricting the number of privileged users, periodic review of privileged users' activities, disallow privileged users from accessing systems logs in which their activities are being captured, strong controls over remote access by privileged users, etc.	<p>MIL 1: The MII does not have Privilege Identity Management (PIM) solution deployed at both production systems (core Systems) as well as on non-production systems.</p> <p>MIL 2: The MII has a Privilege Identity Management (PIM) solution deployed at production systems (core Systems) but not on non-production systems.</p> <p>MIL 3: The MII has a Privilege Identity Management (PIM) solution deployed at production systems (core</p>	3	2

		Systems) but not on non-production systems.		
18	Account access lock policies after failure attempts should be implemented for all accounts.	<p>MIL 1: MII does not have a documented and approved account lock out policy.</p> <p>MIL 2 :The MII has a documented and approved account lock-out policy , however the policy doesn't segregate between different types of resources based on risk , user type etc.</p> <p>MIL 3: The MII has a documented and approved account lock-out policy , and the policy segregates the different types of resources based on risk , user type etc, however the System Audit / Comprehensive review has highlighted observations pertaining to the same.</p> <p>MIL 4: The MII has a documented and approved account lock-out policy , and the policy segregates the different types of resources based on risk , user type etc, and the System Audit / Comprehensive review has no observations pertaining to the same.</p>	4	3

19	<p>Employees and outsourced staff such as employees of vendors or service providers, who may be given authorised access to the MII's critical systems, networks and other computer resources, should be subject to stringent supervision, monitoring and access restrictions.</p>	<p>MIL 1: MII does not have an approved policy for privileged identity management (PIM) for own staff as well as staff of vendors.</p> <p>MIL 2: MII has an approved policy for privileged identity management (PIM) for own staff however the same does not encompass the staff of vendors.</p> <p>MIL 3: MII has an approved policy for privileged identity management (PIM) for own staff which also encompass the staff of vendors, however the System Audit / Comprehensive review has highlighted observations pertaining to the same.</p> <p>MIL 4: MII has an approved policy for privileged identity management (PIM) for own staff which also encompass the staff of vendors , and the System Audit / Comprehensive review has no observations pertaining to the same.</p>	4	3
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20	<p>Two-factor authentication at log-in should be implemented for all users that connect using online / internet facility.</p>	<p>MIL 1: MII has not implemented a 2FA at log-in for all users that connect using online / internet facility, neither the MII has put in multi-step authentication as a compensating mechanism.</p> <p>MIL 2: MII has not implemented a 2FA at log-in for all users that connect using online / internet facility, neither the MII has put in multi-step authentication as a compensating mechanism. However, the MII is in process of implementing 2FA and is currently in the transition phases.</p> <p>MIL 3: MII has implemented a 2FA log-in for all users that connect using online / internet facility. However the System Audit / Comprehensive review has highlighted observations pertaining to the same.</p> <p>MIL 4: MII has implemented a 2FA log-in for all users that connect using online / internet facility and the System Audit / Comprehensive review has no observations pertaining to the same.</p>	4	3
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21	<p>MII should formulate an Internet access policy to monitor and regulate the use of internet and internet based services such as social media sites, cloud-based internet storage sites, etc.</p>	<p>MIL 1: MII has not formulated an internet access policy based on the controls specified in the clause.</p> <p>MIL 2: MII has formulated an internet access policy, however the same does not elaborate on the use of social media sites and / or cloud based storage sites / clients.</p> <p>MIL 3: MII has formulated an internet access policy and the same specifically addresses the issue of use of social media sites and / or cloud based storage sites / clients, however the System Audit / Comprehensive review has highlighted observations pertaining to the same.</p> <p>MIL 4: MII has formulated an internet access policy and the same specifically addresses the issue of use of social media sites and / or cloud based storage sites / clients and the System Audit / Comprehensive review has no observations pertaining to the same. The MII has not reviewed the policy in the past year.</p> <p>MIL 5: MII has formulated an</p>	5	4
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		internet access policy and the same specifically addresses the issue of use of social media sites and / or cloud based storage sites / clients and the System Audit / Comprehensive review has no observations pertaining to the same. The MII has reviewed the policy in the past year.		
22	Proper 'end of life' mechanism should be adopted to deactivate access privileges of users who are leaving the organization or who access privileges have been withdrawn.	MIL 1: MII has no policy for 'end of life' mechanism for all users. MIL 2: MII has a documented and approved policy for 'end of life' mechanism for all users. MIL 3: MII has a documented and approved policy for 'end of life' mechanism for all users, based on a need-to-use basis and on the principle of least privilege.	3	2

Sub-Domain : Physical Security

23	Physical access to the critical systems should be restricted to minimum. Physical access of outsourced staff / visitors should be properly supervised by ensuring at the minimum that outsourced staff / visitors are accompanied at all times by authorised employees.	MIL 1: Physical access to critical systems is not monitored. MIL 2: Physical access to critical systems is restricted to minimum, but outsourced staff / visitors are not accompanied at all times by authorised employees	3	2
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		MIL 3: Physical access to critical systems is restricted to minimum, and outsourced staff / visitors are accompanied at all times by authorised employees.		
24	Physical access to the critical systems should be revoked immediately if the same is no longer required.	MIL 1: Physical access to critical systems is not revoked, even if it is no longer required. MIL 2: Physical access to critical systems is revoked immediately, when it is no longer required.	2	1
25	MII should ensure that the perimeter of the critical equipment's room are physically secured and monitored by employing physical, human and procedural controls such as the use of security guards, CCTVs, card access systems, mantraps, bollards, etc. where appropriate.	MIL 1: Critical equipment's room is not physically secured. MIL 2: Critical equipment's room is physically secured. MIL 3: Critical equipment's room is physically secured, and is utilizing latest security systems which is being updated on continuous basis.	3	2

Sub-Domain : Network Security Management

26	MII should establish baseline standards to facilitate consistent application of security configurations to operating systems, databases, network devices and enterprise mobile devices within the IT environment. The MII should conduct regular enforcement checks to ensure that the	MIL 1: No baseline standard of security configurations is implemented. MIL 2: Baseline standard of security configurations is implemented. But no regular enforcement checks are being	4	3
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	<p>baseline standards are applied uniformly.</p>	<p>conducted.</p> <p>MIL 3: Baseline standard of security configurations is implemented and regular enforcement checks are being conducted.</p> <p>MIL 4: Baseline standard of security configurations is implemented and regular enforcement checks are being conducted. Further, security configurations are being reviewed regularly.</p>		
27	<p>MII should install network security devices, such as firewalls as well as intrusion detection and prevention systems, to protect its IT infrastructure from security exposures originating from internal and external sources.</p>	<p>MIL 1: No firewalls and intrusion detection and prevention systems are installed.</p> <p>MIL 2: Firewalls and intrusion detection and prevention systems are installed.</p> <p>MIL 3: Firewalls and intrusion detection and prevention systems are installed. The same are patched and updated regularly.</p>	3	2

28	<p>Anti-virus software should be installed on servers and other computer systems. Updation of Anti-virus definition files and automatic anti-virus scanning should be done on a regular basis.</p>	<p>MIL 1: No anti-virus software installed on servers and other computer systems.</p> <p>MIL 2: Anti-virus software installed on servers and other computer systems, but is not updated on regular basis.</p> <p>MIL 3: Anti-virus software installed on servers and other computer systems. The same is being updated on regular basis.</p>	3	2
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Sub-Domain : Security of Data

29	<p>Data-in motion and Data-at-rest should be in encrypted form by using strong encryption methods such as Advanced Encryption Standard (AES), RSA, SHA-2, etc.</p>	<p>MIL 1: MII has not identified critical data / classified data and is not encrypting data-in-motion/rest.</p> <p>MIL 2: MII is encrypting data-in-motion/rest but has not identified critical data / classified data.</p> <p>MIL 3: MII is encrypting data-in-motion/rest using strong encryption methods and has identified critical data / classified data , however the System Audit / Comprehensive review has highlighted observations pertaining to the encryption of data-in-motion/rest.</p>	5	4
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		<p>MIL 4: MII is encrypting data-in-motion/rest using strong encryption methods and has identified critical data / classified data, and the System Audit / Comprehensive review has no observation(s) pertaining to the encryption of data-in-motion/rest and/or classification/ identification of critical data.</p> <p>MIL 5: MII is encrypting data-in-motion/rest using strong encryption methods and has identified critical data / classified data , and the System Audit / Comprehensive review has no observation(s) pertaining to the encryption of data-in-motion/rest and/or classification/ identification of critical data. Additionally the MII either reviews the data classification methodology on an annual basis or the MII improves upon the encryption standards deployed periodically.</p>		
30	MII should implement measures to prevent unauthorised access or copying or transmission of data / information held in contractual or fiduciary capacity. It should be ensured that confidentiality of information is not compromised during the process of exchanging and transferring	<p>MIL 1: MII has not identified critical data / classified data and does not have an approved data leakage prevention policy.</p> <p>MIL 2: MII has identified critical data / classified data</p>	4	3

	<p>information with external parties.</p> <p>however it does not have an approved data leakage prevention policy.</p> <p>MIL 3: MII has identified critical data / classified data and has an approved data leakage prevention policy however the System Audit / Comprehensive review has highlighted observations pertaining to leakage of data.</p> <p>MIL 4: MII has identified critical data / classified data and has an approved data leakage prevention policy and the System Audit / Comprehensive review has no observations pertaining to leakage of data.</p>	
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31	<p>The information security policy should also cover use of devices such as mobile phone, faxes, photocopiers, scanners, etc. that can be used for capturing and transmission of data.</p>	<p>MIL 1: The MIIs information security policy does not address the usage of, security of and prevention of data leakage through, various devices that can be used for capturing and transmission of data.</p> <p>MIL 2: The MIIs information security policy addresses the usage of, security of and prevention of data leakage through, various devices that can be used for capturing and transmission of data however the System Audit / Comprehensive review has highlighted observations pertaining to the same.</p> <p>MIL 3: The MIIs information security policy addresses the usage of, security of and prevention of data leakage through, various devices that can be used for capturing and transmission of data and the System Audit / Comprehensive review has no observations pertaining to the same.</p>	3	2
32	<p>MII should allow only authorized data storage devices through appropriate validation processes.</p>	<p>MIL 1: MII does not have an approved hardware & software inventory management policy.</p>	4	3

	<p>MIL 2: MII has an approved hardware & software inventory management policy however it has not maintained a software and hardware inventory. (not even at a rudimentary level).</p> <p>MIL 3: MII has an approved hardware & software inventory management policy and it has maintained a basic software and hardware inventory. However, the System Audit / Comprehensive review has highlighted observations pertaining to the storage of data on devices without following the approved process.</p> <p>MIL 4: MII has an approved hardware & software inventory management policy and it has maintained a basic software and hardware inventory and the System Audit / Comprehensive review has no observations pertaining to the storage of data on devices without following the approved process.</p>	
Sub-Domain : Hardening of Hardware and Software		

33	<p>Only a hardened and vetted hardware / software should be deployed by the MII. During the hardening process, MII should inter-alia ensure that default passwords are replaced with strong passwords and all unnecessary services are removed or disabled in equipments / software.</p>	<p>MIL 1: Hardening of hardware/ software utilized by MIIs is not being conducted.</p> <p>MIL 2: The hardware/ software utilized by MIIs is hardened and vetted.</p> <p>MIL 3: During the hardening process default passwords are replaced with strong passwords and all unnecessary services are removed or disabled.</p> <p>MIL 4: The hardening process is regularly reviewed to plug vulnerabilities in the system.</p>	4	3
34	<p>All open ports which are not in use or can potentially be used for exploitation of data should be blocked. Other open ports should be monitored and appropriate measures should be taken to secure the ports.</p>	<p>MIL 1: Open ports not in use are not blocked.</p> <p>MIL 2: Open ports which are not in use or can potentially be used for exploitation of data are blocked.</p> <p>MIL 3: Open ports which are not in use or can potentially be used for exploitation of data are blocked. Other open ports are monitored and measures are taken to secure the same.</p> <p>MIL 4: Status of open ports are reviewed regularly to decide whether the port should be</p>	4	3

		kept open or not.		
Sub-Domain : Application Security and Testing				
35	MII should ensure that regression testing is undertaken before new or modified system is implemented. The scope of tests should cover business logic, security controls and system performance under various stress-load scenarios and recovery conditions.	<p>MIL 1: No regression testing is undertaken.</p> <p>MIL 2: Regression testing is undertaken, but the scope is not as per SEBI guidelines.</p> <p>MIL 3: Regression testing is undertaken and the scope of tests is as per SEBI guidelines.</p>	3	2
Sub-Domain : Patch Management				
36	MII should establish and ensure that the patch management procedures include the identification, categorisation and prioritisation of security patches. An implementation timeframe for each category of security patches should be established to implement security patches in a timely manner.	<p>MIL 1: No patch management procedures are established.</p> <p>MIL 2: Patch management procedures are established to include the identification, categorisation and prioritisation of security patches</p> <p>MIL 3: Patch management procedures and implementation timeframe for each category of security patches are established.</p> <p>MIL 4: Patch management procedure is periodically reviewed to ensure quick updation of patches.</p>	4	3



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37	MII should perform rigorous testing of security patches before deployment into the production environment so as to ensure that the application of patches do not impact other systems.	MIL 1: No testing of security patches undertaken. MIL 2: Testing of security patches undertaken before deployment into the production environment so as to ensure that the application of patches do not impact other systems. MIL 3: Patch testing policy has been adopted so that untested patches are not deployed in production environment.	3	2
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Sub-Domain : Disposal of Systems and Storage Devices

38	MII should frame suitable policy for disposals of the storage media and systems. The data / information on such devices and systems should be removed by using methods viz. wiping / cleaning / overwrite, degauss and physical destruction, as applicable.	MIL 1: No policy for disposals of the storage media and systems. MIL 2: Policy for disposals of the storage media and systems is adopted and is being implemented at all times.	2	1
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Sub-Domain : Vulnerability Assessment and Penetration Testing

39	MII should regularly conduct vulnerability assessment to detect security vulnerabilities in the IT environment. MII should also carry out periodic penetration tests, atleast once in a year, in order to conduct an in-depth evaluation of the security posture of the system through simulations of actual attacks on its systems and networks.	MIL 1: MII's information security policy doesn't encompass periodically conducting VA and PT. MIL 2: MII's information security policy encompasses periodically conducting VA and PT however the MII has	5	4
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40	<p>Remedial actions should be immediately taken to address gaps that are identified during vulnerability assessment and penetration testing.</p>	<p>not been conducting either VA or PT as per the approved policy.</p> <p>MIL 3: MII's information security policy encompasses periodically conducting VA and PT and the MII has been conducting VA and PT as per the approved policy, however the System Audit / Comprehensive review has highlighted observations pertaining to the open areas found during the VA/PT.</p> <p>MIL 4: MII's information security policy encompasses periodically conducting VA and PT and the MII has been conducting VA and PT as per the approved policy, however the System Audit / Comprehensive review has no observations pertaining to the open areas found during the VA/PT. (i.e. all vulnerabilities found in the VA/PT were addressed by the MII in a time-bound manner.)</p> <p>MIL 5: In addition to MIL 4, the MII also fine tunes its VA and or PT (based on learnings) and also periodically changes vendors.</p>		
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41	<p>In addition, MII should perform vulnerability scanning and conduct penetration testing prior to the commissioning of a new system which offers internet accessibility and open network interfaces.</p>	<p>(For new systems built internally or owned by the MII / its subsidiary) MIL 1: MII's information security policy doesn't encompass periodically conducting VA and PT for new systems (including those which offer internet accessibility and open network interfaces).</p> <p>MIL 2: MII's information security policy encompasses periodically conducting VA and PT for new systems (including those which offer internet accessibility and open network interfaces), however the MII has not been conducting either VA or PT as per the approved policy.</p> <p>MIL 3: MII's information security policy encompasses periodically conducting VA and PT for new systems (including those which offer internet accessibility and open network interfaces) and the MII has been conducting VA and PT as per the approved policy, however the System Audit / Comprehensive review has highlighted observations pertaining to the open areas found during the VA/PT for new systems (including those which offer internet accessibility and open</p>	5	4
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	<p>network interfaces).</p> <p>MIL 4: MII's information security policy encompasses periodically conducting VA and PT for new systems (including those which offer internet accessibility and open network interfaces) and the MII has been conducting VA and PT as per the approved policy, however the System Audit / Comprehensive review has no observations pertaining to the open areas found during the VA/PT. (i.e. all vulnerabilities found in the VA/PT were addressed by the MII in a time-bound manner.) for new systems (including those which offer internet accessibility and open network interfaces)</p> <p>MIL 5 : In addition to MIL 4, the MII also fine tunes its VA and or PT for new systems (including those which offer internet accessibility and open network interfaces) (based on learnings) and also periodically changes vendors.</p>	
Domain : Monitoring of Critical Assets/Infrastructure and Detection of Intrusion/Unauthorized Access		

42	<p>MII should establish appropriate security monitoring systems and processes to facilitate continuous monitoring of security events and timely detection of unauthorised or malicious activities, unauthorised changes, unauthorised access and unauthorised copying or transmission of data / information held in contractual or fiduciary capacity, by internal and external parties. The security logs of systems, applications and network devices should also be monitored for anomalies.</p>	<p>MIL 1: MII has not established a C-SOC.</p> <p>MIL 2: The MII has a C-SOC , share with other MIIs (subsidiaries etc) , however the C-SOC doesn't have separate consoles for each MII and the C-SOC does not differentiate between the traffic of different MIIs it caters to.</p> <p>MIL 3: The MII has a C-SOC, shared with other MIIs with separate consoles for each MII and the C-SOC differentiates between the traffic of different MIIs however the System Audit / Comprehensive review has highlighted observations pertaining to the C-SOC's monitoring ability or the evaluation of logs by the C-SOC.</p> <p>MIL 4: The MII has a C-SOC, shared with other MIIs with separate consoles for each MII and the C-SOC differentiates between the traffic of different MIIs and the System Audit / Comprehensive review has no observations pertaining to the C-SOC's monitoring ability or the evaluation of logs by the C-SOC.</p>	5	4
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		MIL 5: The MII has a C-SOC, shared with other MIIs with separate consoles for each MII and the C-SOC differentiates between the traffic of different MIIs and the System Audit / Comprehensive review has no observations pertaining to the C-SOC's monitoring ability or the evaluation of logs by the C-SOC. Additionally, the C-SOC also periodically updates its monitoring parameters and has demonstrated in pre-emptive warding-off attacks.		
43	Further, to ensure high resilience, high availability and timely detection of attacks on systems and networks, MII should implement suitable mechanism to monitor capacity utilization of its critical systems and networks.	MIL 1: The MII does not have a dedicated capacity utilization monitoring mechanism consisting of appropriate systems and dedicated in-house staff. MIL 2: The MII does have a capacity utilization monitoring mechanism consisting of appropriate systems however the same is outsourced. Additionally, not all critical systems are being monitored by the same. MIL 3: The MII does have a capacity utilization monitoring mechanism consisting of appropriate systems however the same is outsourced. All critical systems are being	5	4

	<p>monitored by the same, however the thresholds set for alerts are too high to timely ward-off attacks / untoward incidents.</p> <p>MIL 4: The MII does has a capacity utilization monitoring mechanism consisting of appropriate systems however the same is outsourced. All critical systems are being monitored by the same, the thresholds set for alerts are appropriate to timely ward-off attacks / untoward incidents as per the System Auditor.</p> <p>MIL 5: The MII does has a capacity utilization monitoring mechanism consisting of appropriate systems however the same is outsourced. All critical systems are being monitored by the same, the thresholds set for alerts are appropriate to timely ward-off attacks / untoward incidents as per the System Auditor. Additionally the MII is also quarterly reviewing the threshold parameters and also monitors shadow systems deployed for new projects.</p>		
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44	<p>Suitable alerts should be generated in the event of detection of unauthorized or abnormal system activities, transmission errors or unusual online transactions.</p>	<p>MIL 1: The MII does not have an alert generation system in place</p> <p>MIL 2 : The MII has a well defined, robust system in place for generation of alerts</p> <p>MIL 3 : In addition to MIL 2, the MII has a dedicated team of experts which continuously monitor and refine the alert definitions and alert generation system</p>	3	2
Domain : Response and Recovery				
45	<p>Alerts generated from monitoring and detection systems should be suitably investigated, including impact and forensic analysis of such alerts, in order to determine activities that are to be performed to prevent expansion of such incident of cyber attack or breach, mitigate its effect and eradicate the incident.</p>	<p>MIL 1: The MII does not have a SOP in place for segmenting the security alerts based on its internal criteria, investigating the security alerts, and thereafter mitigating the incidents which led to the alerts.</p> <p>MIL 2: The MII has a documented and approved SOP in place for segmenting the security alerts based on its internal criteria, investigating the security alerts, and thereafter mitigating the incidents which led to the alerts.</p> <p>MIL 3: The MII has demonstrated instances where it has been regularly</p>	4	3

		<p>monitoring the alerts, investigating relevant security alerts, and has also been taking corrective actions to avoid / mitigate instances which led to the alerts.</p> <p>MIL 4: The MII has demonstrated instances where it has been regularly monitoring the alerts, investigating relevant security alerts, and has also been taking corrective actions to avoid / mitigate instances which led to the alerts. The MII has also been updating its security policy based on dominant / high risk alerts received.</p>		
46	The response and recovery plan of the MII should aim at timely restoration of systems affected by incidents of cyber attacks or breaches. The recovery plan should be in line with the Recovery Time Objective (RTO) and Recovery Point Objective (RPO) specified by SEBI.	<p>MIL 1: The MII does not have an approved BCP/DR Policy independent for itself (in case of sharing of DR Sites with subsidiary companies who are also MIIs). The same may be a document pertaining to the parent MII.</p> <p>MIL 2: The MII has an approved BCP/DR Policy independent for its own MII (incase of sharing of DR Sites with subsidiary companies who are also MIIs).</p> <p>MIL 3: The MII has an approved BCP/DR Policy</p>	4	3

		<p>independent for its own MII (incase of sharing of DR Sites with subsidiary companies who are also MIIs) and has been conducting mock and live DR Drills as per frequency specified by SEBI, however the System Audit / Comprehensive review has highlighted observations pertaining to the BCP/DR Plan or the DR Site or controls pertaining to the same. The MII also conforms to the RTO and RPO requirements as relevant to it.</p> <p>MIL 4: The MII has an approved BCP/DR Policy independent for its own MII (incase of sharing of DR Sites with subsidiary companies who are also MIIs) and has been conducting mock and live DR Drills as per frequency specified by SEBI, and the System Audit / Comprehensive review has no observations pertaining to the BCP/DR Plan or the DR Site or controls pertaining to the same. The MII also conforms to the RTO and RPO requirements as relevant to it.</p>		
47	The response plan should define responsibilities and actions to be performed by its employees and support /	MIL 1: The MII does not have an approved BCP/DR Policy independent for itself (in case	3	2

	<p>outsourced staff in the event of cyber attacks or breach of cyber security mechanism.</p>	<p>of sharing of DR Sites with subsidiary companies who are also MIIs). The same may be a document pertaining to the parent MII.</p> <p>MIL 2: The MII has an approved BCP/DR Policy independent for its own MII (incase of sharing of DR Sites with subsidiary companies who are also MIIs). However the same does not enunciate the responsibilities and actions to be performed by its employees and support / outsourced staff in the event of cyber-attacks or breach of cyber security mechanism.</p> <p>MIL 3: The MII has an approved BCP/DR Policy independent for its own MII (incase of sharing of DR Sites with subsidiary companies who are also MIIs). The same enunciates the responsibilities and actions to be performed by its employees in the event of cyber-attacks or breach of cyber security mechanism. However the policy does not lay down responsibilities and action for support / outsourced staff, as may be applicable.</p>		
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48	<p>Any incident of loss or destruction of data or systems should be thoroughly analyzed and lessons learned from such incidents should be incorporated to strengthen the security mechanism and improve recovery planning and processes.</p>	<p>MIL 1: The MII does not have a documented and approved policy for analyzing the incidents pertaining to system glitches, cyber incidents.</p> <p>MIL 2: The MII has a documented and approved policy for analyzing the incidents pertaining to system glitches, cyber incidents, which also outlines the mechanism to place the RCA before the respective technology / Cyber security committees of the MII and thereafter the Board of the MII.</p> <p>MIL 3: The MII has been incorporating the learnings from the incidents occurred. The MII has also been timely been incorporating security control(s) measures.</p> <p>MIL 4: The MII has been incorporating the learnings from the incidents occurred. The MII has also been timely been incorporating security control(s) measures. The MII has also fine-tuned its recovery planning process based on such learnings.</p>	4	3
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49	<p>MII should also conduct suitable periodic drills to test the adequacy and effectiveness of response and recovery plan.</p>	<p>MIL 1: The MII does not conduct the minimum number of mock and live drills from its DR site as specified by SEBI.</p> <p>MIL 2: The MII conducts the minimum number of mock and live drills from its DR site as specified by SEBI. However the scenarios developed do not include Cyber Attacks/ events.</p> <p>MIL 3: The MII conducts the minimum number of mock and live drills from its DR site as specified by SEBI. And the scenarios developed include Cyber Attacks/ events.</p> <p>MIL 4: The MII conducts the minimum number of mock and live drills from its DR site as specified by SEBI. And the scenarios developed include Cyber Attacks/ events. Additionally, the MII also conducts dedicated Cyber Drills , which may be in co-ordination with relevant agencies and its subsidiary companies who may be MIIs.</p>	4	3
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Domain : Sharing of Information

50	<p>Quarterly reports containing information on cyber attacks and threats experienced by MII and measures taken to mitigate vulnerabilities, threats and attacks</p>	<p>MIL 1: Quarterly reports are not being submitted.</p> <p>MIL 2: Quarterly reports on</p>	2	1
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	including information on bugs / vulnerabilities / threats that may be useful for other MIIs, should be submitted to SEBI.	cyber attacks and counter measures taken are submitted to SEBI.		
51	Such details as are felt useful for sharing with other MIIs in masked and anonymous manner shall be shared using mechanism to be specified by SEBI from time to time.	NA	NA	NA

Domain : Training

52	MII should conduct periodic training programs to enhance awareness level among the employees and outsourced staff, vendors, etc. on IT / Cyber security policy and standards. Special focus should be given to build awareness levels and skills of staff from non-technical disciplines.	MIL 1: No training programs are being conducted. MIL 2: Training programs are conducted but not periodically/or not all employees are involved. MIL 3: Periodic training programs are conducted for all the employees MIL 4: Periodic training programs are conducted for all the employees with special focus given to building awareness levels and skills of staff from non-technical disciplines	4	3
53	The training program should be reviewed and updated to ensure that the contents of the program remain current and relevant.	MIL 1: Training program not reviewed. MIL 2: Training program reviewed and updated periodically.	2	1

Domain : Periodic Audit

54	<p>The Terms of Reference for the System Audit of MII specified vide circular CIR/MRD/DMS/13/2011 dated November 29, 2011 shall be accordingly modified to include audit of implementation of the aforementioned areas.</p>	<p>MIL 1: Terms of Reference for the System Audit have not been modified.</p> <p>MIL 2: Terms of Reference for the System Audit have been modified to include areas mentioned in SEBI Cyber security circular dated July 06, 2015.</p>	2	1
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Calculation Methodology for Cyber Capability Index

ANNEXURE-2

Sr. No.	Domain	Sub-Domain	Total Parameters	Parameters used for scoring in the Index	Maximum Permissible Score (A)	Minimum Cut-Off Score (B)	Weight in the Index (C)	Index on min score (D)	Index on max score (E)	Sample score (F)	Index on sample score (G)
1	Governance of Critical Infrastructure and Personnel	NA	9	9	26	9	11.0%	3.81	11.00	25.00	10.58
2	Identification of critical assets and risks	NA	3	3	8	3	10.0%	3.75	10.00	7.00	8.75
3	Protection of Critical Assets and Infrastructure	Access Controls	10	10	26	10	5.0%	1.92	5.00	25.00	4.81
		Physical Security	3	3	5	3	4.0%	2.40	4.00	4.00	3.20
		Network Security Management	3	3	7	3	4.0%	1.71	4.00	6.00	3.43
		Security of Data	4	4	12	4	4.0%	1.33	4.00	11.00	3.67
		Hardening of Hardware and Software	2	2	6	2	3.0%	1.00	3.00	5.00	2.50



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		Application Security and Testing	1	1	2	1	3.0%	1.50	3.00	1.00	1.50
		Patch Management	2	2	5	2	3.0%	1.20	3.00	4.00	2.40
		Disposal of Systems and Storage Devices	1	1	1	1	3.0%	3.00	3.00	1.00	3.00
		Vulnerability Assessment and Penetration Testing	3	3	8	3	4.0%	1.50	4.00	7.00	3.50
4	Monitoring of Critical Assets/ Infrastructure and Detection of Intrusion/ Unauthorized Access	NA	3	3	10	3	11.0%	3.30	11.00	9.00	9.90
5	Response and Recovery	NA	5	5	14	5	10.0%	3.57	10.00	13.00	9.29
6	Sharing of Information	NA	2	1	1	1	5.0%	5.00	5.00	1.00	5.00
7	Training	NA	2	2	4	2	10.0%	5.00	10.00	3.00	7.50
8	Periodic Audit	NA	1	1	1	1	10.0%	10.00	10.00	1.00	10.00
Total			54	53	136	53	100.00%	50.00	100.00	123.00	89.02



CIRCULARS

1. Circular No. SMDRP/Policy/Cir-28/99 dated August 23, 1999.
2. Circular No. SMDRP/Policy/Cir-05/2001 dated February 1, 2001.
3. Circular No. D&CC/FITTC/Cir-09/2002 dated July 4, 2002.
4. Circular No. D&CC/FITTC/Cir-10/2002 dated September 25, 2002.
5. Circular No. D&CC/FITTC/Cir-13/2002 dated November 1, 2002.
6. Circular No. D&CC/FITTC/CIR - 12/2002 dated October 30, 2002.
7. Circular No. D&CC/FITTC/Cir-15/2002 dated December 27, 2002.
8. Circular No. LGL/Cir-2/2003 dated February 19, 2003.
9. Circular No. DCC/FITTC/Cir-19/2003 dated March 4, 2003
10. Circular No. SEBI/MRD/Policy/AT/Cir-19/2004 dated April 21, 2004.
11. Circular No. MRD/DoP/Dep/Cir-27/2004 dated August 16, 2004.
12. Circular No. MRD/DoP/Dep/Cir-29/2004 dated August 24, 2004.
13. Circular No. MRD/DoP/SE/Dep/Cir-36/04 dated October 27, 2004.
14. Circular No. SEBI/MRD/SE/DEP/Cir-4/2005 dated January 28, 2005.
15. Circular No. SEBI/MRD/SE/Cir-16/2005 dated August 04, 2005.
16. Circular No. MRD/DoP/SE/Dep/Cir-18/2005 dated September 2, 2005.
17. Circular No. MRD/DoP/Dep/Cir-22 /05 dated November 09, 2005.
18. Circular No. SEBI/MRD/DEP/Cir-24/05 dated December 22, 2005.
19. Circular No. SEBI/MRD/DEP/Cir-2/06 dated January 19, 2006.
20. Circular No. SEBI/MRD/DEP/Cir-3/06 dated February 21, 2006.
21. Circular No. MRD/DoP/Dep/Cir-09/06 dated July 20, 2006.
22. Circular No. MRD/DoP/Dep/SE/Cir-13/06 dated September 26, 2006.
23. Circular No. MRD/DoP/Dep/SE/Cir-17/06 dated October 27, 2006.
24. Circular No. MRD/Dep/Cir- 20/06 dated December 11, 2006.
25. Circular No. MRD/DoP/Dep/SE/Cir-22/06 dated December 18, 2006.
26. Circular No. MRD/DSA/SE/Dep/Cust/Cir-23/06 dated December 22, 2006.
27. Circular No. SEBI/CFD/DILDIP/29/2008/01/02 dated February 1, 2008.
28. Circular No. SEBI/MRD/Dep/Cir-03/2007 dated February 13, 2007.
29. Circular No. MRD/DoP/Cir- 5/2007 dated April 27, 2007.
30. Circular No. MIRSD/DPS-III/Cir-9/07 dated July 3, 2007.
31. Circular No. MIRSD/DPS- III/Cir-23/08 dated July 25, 2008.
32. Circular No. SEBI/MRD/Dep/Cir-03/2008 dated February 28, 2008.



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33. Circular No. MRD/DoP/Cir-20/2008 dated June 30, 2008.
34. Circular No. MRD/DoP/SE/Dep/Cir-2/2009 dated February 10, 2009.
35. Circular No. CIR/MRD/DP/19/2010 dated June 10, 2010.
36. Circular No. CIR/MRD/DP/20/2010 dated July 1, 2010.
37. Circular No. CIR/MRD/DP/22/2010 dated July 29, 2010.
38. Circular No. CIR/MRD/DO/37/2010 dated December 14, 2010.
39. Circular No. CIR/MRD/DP/04/2011 dated April 07, 2011.
40. Circular No. CIR/MRD/DP/05/2011 dated April 27, 2011.
41. Circular No. MIRSD/SE/Cir-21/2011 dated October 5, 2011.
42. Circular No. CIR/MRD/DMS/13/2011 dated November 29, 2011.
43. Circular No. CIR/MRD/DMS/12/2012 dated April 13, 2012
44. Circular No. CIR/MRD/ DMS/17/2012 dated June 22, 2012
45. Circular No. CIR/MRD/ICC/16/2012 dated June 15, 2012.
46. Circular No. CIR/MRD/DP/21/2012 dated August 02, 2012.
47. Circular No. CIR/MIRSD/09/2012 dated August 13, 2012.
48. Circular No. CIR/MRD/DP/22/2012 dated August 27, 2012.
49. Circular No. CIR SEBI/MIRSD /11/2012 dated September 05, 2012.
50. Circular No. CIR/MRD/DP/24/2012 dated September 11, 2012.
51. Circular No. CIR/MRD/DP/DA/25/2012 dated September 21, 2012.
52. Circular No. CIR/MRD/DP/27/2012 dated November 01, 2012.
53. Circular No. CIR/MRD/DP/32/2012 dated December 06, 2012.
54. Circular No. CIR SEBI/MIRSD/01/2013 dated January 04, 2013.
55. Circular No. CIR/MRD/DP/10/2013 dated March 21, 2013.
56. Circular No. CIR SEBI/MRD/DRMNP/26/2013 dated September 04, 2013.
57. Circular No. CIR SEBI/MIRSD /07/2013 dated September 12, 2013.
58. Circular No. CIR SEBI/MIRSD/09/2013 dated October 08, 2013.
59. Circular No. CIR/MIRSD/10/2013 dated October 28, 2013.
60. Circular No. CIR SEBI/MIRSD/ 12/2013 dated December 04, 2013.
61. Circular No. CIR SEBI/MRD/DOP/01/2014 dated January 07, 2014.
62. Circular No. CIR MRD/DMS/03/2014 dated January 21, 2014.
63. Circular No. CIR SEBI/MRD/DMS/05/2014 dated February 07, 2014.
64. Circular No. CIR/MRD/DP/21/2014 dated July 01, 2014.
65. Circular No. CIR/MRD/DP/22/2014 dated July 04, 2014.



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66. Circular No. CIR/MRD/DP/31/2014 dated November 12, 2014.
67. Circular No. CIR/MRD/DP/1/2015 dated January 12, 2015.
68. Circular No. CIR/ MIRSD/1/2015 dated March 04, 2015.
69. Circular No. CIR/MRD/DP/10/2015 dated June 05, 2015.
70. Circular No. CIR/MRD/DP/13/2015 dated July 06, 2015.
71. Circular No. CIR/MIRSD/2/2015 dated August 26, 2015.
72. Circular No. CIR/MRD/DP/18/2015 dated December 09, 2015.
73. Circular No. CIR/MRD/DP/19/2015 dated December 09, 2015.
74. Circular No. CIR/MRD/DP/20/2015 dated December 11, 2015.
75. Circular No. CIR/MIRSD/29/2016 dated January 22, 2016
76. Circular No. SEBI/HO/MRD/DP/CIR/P/2016/58 dated June 07, 2016.
77. Circular No. CIR/MIRSD/64/2016 dated July 12, 2016
78. Circular No. CIR/MIRSD/66/2016 dated July 21, 2016
79. Circular No. SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016
80. Circular No. CIR/IMD/FPIC/123/2016 dated November 17, 2016
81. Circular No. SEBI/HO/DMS/CIR/P/2017/15 dated February 23, 2017
82. Circular No. SEBI/HO/MIRSD/MIRSD6/CIR/P/2017/20 dated March 10, 2017
83. Circular No. SEBI/HO/MRD/DP/CIR/P/2017/29 dated April 03, 2017
84. Circular No. SEBI/HO/MIRSD/MIRSD1/CIR/P/2017/38 dated May 02, 2017
85. Circular number SEBI/HO/GSD/T&A/CIR/P/2017/42 dated May 16, 2017
86. Circular number CIR/MRD/DP/56/2017 dated June 14, 2017
87. Circular number CIR/HO/MIRSD/MIRSD2/CIR/P/2017/64 dated June 22, 2017
88. Circular number SEBI/HO/IMD/FIIC/CIR/P/2017/068 dated June 30, 2017
89. Circular number CIR/IMD/DF-1/67/2017 dated June 30, 2017
90. Circular number SEBI/HO/MRD/DSA/CIR/P/2018/1 dated January 29, 2018
91. Circular number CIR/DDHS/P/59/2018 dated March 28, 2018
92. Circular number SEBI/HO/OIAE/IGRD/CIR/P/2018/58 dated March 26, 2018



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93. Circular number IMD/FPIC/CIR/P/2018/61 dated April 05, 2018
94. Circular number SEBI/ HO/ MIRSD/ DOS3/ CIR/ P/ 2018/ 140 dated November 13, 2018
95. Circular number SEBI/HO/MIRSD/CIR/PB/2018/147 dated December 03, 2018
96. Circular number CIR/MRD/CSC/148/2018 dated December 07, 2018
97. Circular number SEBI/HO/MIRSD/DOP/CIR/P/2018/153 dated December 17, 2018
98. Circular number CIR/MRD/DP/158/2018 dated December 27, 2018
99. Circular No. SEBI/HO/MIRSD/DOS2/CIR/P/2019/10 dated Jan 04, 2019
100. Circular number SEBI/HO/MIRSD/DOP/CIR/P/2019/05 dated January 04, 2019
101. Circular No. SEBI/HO/MRD/DOP2DSA2/CIR/P/2019/13 dated January 10, 2019
102. Circular No. SEBI/HO/MRD/DOP2-DSA2/CIR/P/2019/22 dated January 23, 2019
103. Circular number SEBI/HO/MRD/DOP1/CIR/P/2019/24 dated January 31, 2019
104. Circular number SEBI/HO/MRD/DOP2DSA2/CIR/P/2019/26 dated February 05, 2019
105. Circular No. SEBI/HO/MRD/DOP2DSA2/CIR/P/2019/31 dated February 15, 2019
106. Circular number CIR/HO/MIRSD/DOS2/CIR/PB/2019/038 dated March 15, 2019
107. Circular number SEBI/HO/MRD/DMS1/CIR/P/2019/43 dated March 26, 2019
108. Circular No. SEBI/HO/CFD/DIL2/CIR/P/2019/50 dated April 03, 2019
109. Circular No. MRD/DoP2DSA2/CIR/P/2019/51 dated April 10, 2019
110. Circular No. IMD/FPIC/CIR/P/2019/62 dated May 08, 2019
111. Circular No. SEBI/MRD/CSC/CIR/P/2019/64 dated May 20, 2019
112. Circular No. SEBI/HO/CFD/DIL2/CIR/P/2019/67 dated May 22, 2019
113. Circular No. CIR/HO/MIRSD/DOP/CIR/P/2019/75 dated June 20, 2019



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114. Circular No. SEBI/HO/CFD/DIL2/CIR/P/2019/76 dated June 28, 2019
115. Circular No. SEBI/HO/CFD/DIL2/CIR/P/2019/85 dated July 26, 2019
116. Circular No. SEBI/HO/MRD/DOP2DSA2/CIR/P/2019/87 dated August 01, 2019
117. Circular No. SEBI/HO/OIAE/IGRD/CIR/P/2019/86 dated August 02, 2019
118. Circular No. SEBI/HO/MIRSD/DOP/CIR/P/2019/95 dated August 29, 2019
119. Circular No. SEBI/HO/MRD/DOP1/CIR/P/2019/106 dated October 10, 2019
120. Circular No. SEBI/HO/MIRSD/DOP/CIR/P/2019/109 dated October 15, 2019
121. Circular No. SEBI/HO/MIRSD/RTAMB/CIR/P/2019/122 dated November 05, 2019
122. Circular No. SEBI/HO/MIRSD/DOP/CIR/P/2019/123 dated November 05, 2019
123. Circular No. IMD/FPI&C/CIR/P/2019/124 dated November 05, 2019
124. Circular No. SEBI/HO/CFD/DCR2/CIR/P/2019/133 dated November 08, 2019
125. Circular No. SEBI/HO/DDHS/CIR/P/134/2019 dated November 13, 2019
126. Circular No. SEBI/HO/MIRSD/DOP/CIR/P/2019/136 dated November 15, 2019
127. Circular No. SEBI/HO/MRD2/DCAP/CIR/P/2 dated November 28, 2019
128. Circular No. SEBI/HO/MRD1/ICC1/CIR/P/2020/03 dated January 07, 2020
129. Circular No. SEBI/HO/CFD/CMD/CIR/P/2020/12 dated January 22, 2020
130. Circular No. SEBI/HO/CFD/DIL2/CIR/P/2020/13 dated January 22, 2020
131. Circular No. IMD/FPI&C/CIR/P/2020/07 dated January 16, 2020
132. Circular No. SEBI/HO/MRD/DDAP/CIR/P/2020/16 dated January 28, 2020



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133. Circular No. IMD/FPI&C/CIR/P/2020/022 dated February 04, 2020
134. Circular No. SEBI/HO/MIRSD/DOP/CIR/P/2020/28 dated February 25, 2020
135. Circular No. SEBI/HO/MRD1/DSAP/CIR/P/2020/29 dated February 26, 2020
136. Circular No. SEBI/HO/MIRSD/DOP/CIR/P/2020/73 dated April 24, 2020
137. Circular No. SEBI/HO/MIRSD/DOP/CIR/P/2020/80 dated May 12, 2020
138. Circular No. SEBI/HO/MIRSD/DOP/CIR/P/2020/88 dated May 25, 2020
139. Circular No. SEBI/HO/MIRSD/DOP/CIR/P/2020/90 dated May 29, 2020
140. Circular No. SEBI/HO/MRD-1/CIR/P/2020/95 dated June 05, 2020
141. Circular No. SEBI/HO/DDHS/CIR/P/103/2020 dated June 23, 2020
142. Circular No. SEBI/HO/MIRSD/DPIEA/CIR/P/2020/115 dated July 01, 2020
143. Circular No. SEBI/HO/MRD2/DDAP/CIR/P/2020/137 dated July 24, 2020
144. Circular No. SEBI/HO/MIRSD/DOP/CIR/P/2020/143 dated July 29, 2020
145. Circular No. SEBI/HO/CFD/CMD1/CIR/P/2020/144 dated July 31, 2020
146. Circular No. SEBI/HO/OIAE/IGRD/CIR/P/2020/152 dated August 13, 2020
147. Circular No. SEBI/HO/MRD2/DDAP/CIR/P/2020/153 dated August 18, 2020
148. Circular No. SEBI/HO/MIRSD/DOP/CIR/P/2020/158 dated August 27, 2020
149. Circular No. SEBI/HO/MIRSD/DOP/CIR/P/2020/167 dated September 08, 2020
150. Circular No. SEBI/HO/ISD/ISD/CIR/P/2020/168 dated September 09, 2020

151. Circular No. SEBI/HO/IMD/FPI&C/CIR/P/2020/177 dated September 21, 2020
152. Circular No. SEBI/CIR/CFD/DCR1/CIR/P/2020/181 dated September 23, 2020
153. Circular No. SEBI/HO/MRD/DCAP/CIR/P/2020/190 dated October 01, 2020
154. Circular No. SEBI/HO/MIRSD/DOP/CIR/P/2020/193 dated October 01, 2020
155. Circular No. SEBI/HO/IMD/DF3/CIR/P/2020/194 dated October 05, 2020
156. Circular No. SEBI/HO/DDHS/CIR/P/2020/198 dated October 05, 2020
157. Circular No. SEBI/HO/DDHS/CIR/P/2020/199 dated October 6, 2020
158. Circular No. SEBI/HO/OIAE/IGRD/CIR/P/2020/208 dated October 22, 2020

COMMUNICATIONS

1. SMDRP/NSDL / 3055 /1998 dated August 11, 1998.
2. SMDRP/RKD /NSDL/2494 /98 dated November 18, 1998.
3. SMDRP/NSDL/4615 /2000 dated March 13, 2000.
4. SMDRP/CDSL / 18300 /2000 dated November 16, 2000.
5. SMDRP/NSDL/26563/2001 dated April 10, 2001.
6. D&CC/ 1099 / 2002 dated November 01, 2002.
7. MRD/DRK/SU/16034/2003 dated August 22, 2003.
8. MRD/VSS/ARR/ 12255/2004 dated June 10, 2004.
9. MRD/DoP/ Dep/82334 /2006 dated December 14, 2006.
10. MRD/DEP/PP/123624 /2008 dated April 23, 2008.
11. MRD/DoP/MC/141442 /2008 dated October 17, 2008.
12. SEBI/ MRD/CDSL/ 149156 /2009 dated January 01, 2009.
13. MRD/CDSL/VM/ 155773 /2009 dated February 27, 2009.
14. MRD/NSDL/VM/158886 /2009 dated March 30, 2009.
15. MRD/DoP/NSDL/VM/ 162378 /2009 dated May 06, 2009.
16. MRD/DoP/NSDL/VM/168994 /2009 dated July 07, 2009.
17. MRD/CDSL/VM/168989 /2009 dated July 07, 2009.

18. SEBI/MRD/DEP/VM/169784 /09 dated July 15, 2009.
19. MRD/DoP/Dep/VM/182963/2009 dated November 12, 2009.
20. MRD/DoP/MAS - OW/16723/2010 dated August 17, 2010.
21. MRD/DP/SG-OW/202/2012 and MRD/DP/SG-OW/203/2012 dated January 4, 2012.
22. MRD/DP/SG-OW/2010/2012 dated January 20, 2012.
23. CFD email dated November 05, 2015.
24. MIRSD email dated January 16, 2015.
25. SEBI Letter No. MRD//DP/OW/23881/2015 dated August 24, 2015SEBI letter No. SEBI/HO/MRD/DP/OW/2016/25739/1 & 25740/1 dated September 14, 2016
26. SEBI letter MIRSD2/DB/AEA/OW/2018/7292 dated March 07, 2018
27. SEBI letter SEBI/MRD/ICC/OW/P/2018/27066/1 dated September 25, 2018
28. SEBI letter MRD/DoPII/DSAII/MIRSD/DOS3/OW/2018/28162/1 dated October 22, 2018
29. SEBI Letter no. SEBI/HO/MRD/CSC/OW/P/2019/10055 dated April 22, 2019
30. SEBI Letter no. MRD/DSA/OW/11447/2/2019 dated May 8, 2019
31. SEBI Letter no. SEBI/MIRSD/16742/2019 dated July 03, 2019
32. SEBI Letter no. SEBI/HO/MRD/DOP1/OW/P/20062/7/2019 dated August 06, 2019
33. SEBI Letter no. SEBI/HO/MRD/CSC/OW/P/2019/22202/1 dated August 28, 2019
34. MIRSD email dated October 16, 2019
35. SEBI/HO/MRD/CSC/OW/P/2019/28527/1 dated October 30, 2019 and SEBI/HO/MRD/CSC/OW/P/2019/28517/1 dated October 30, 2019
36. MRD email dated November 04, 2019
37. MRD email dated February 06, 2020
38. DDHS email dated February 20, 2020
39. MRD email dated May 18, 2020