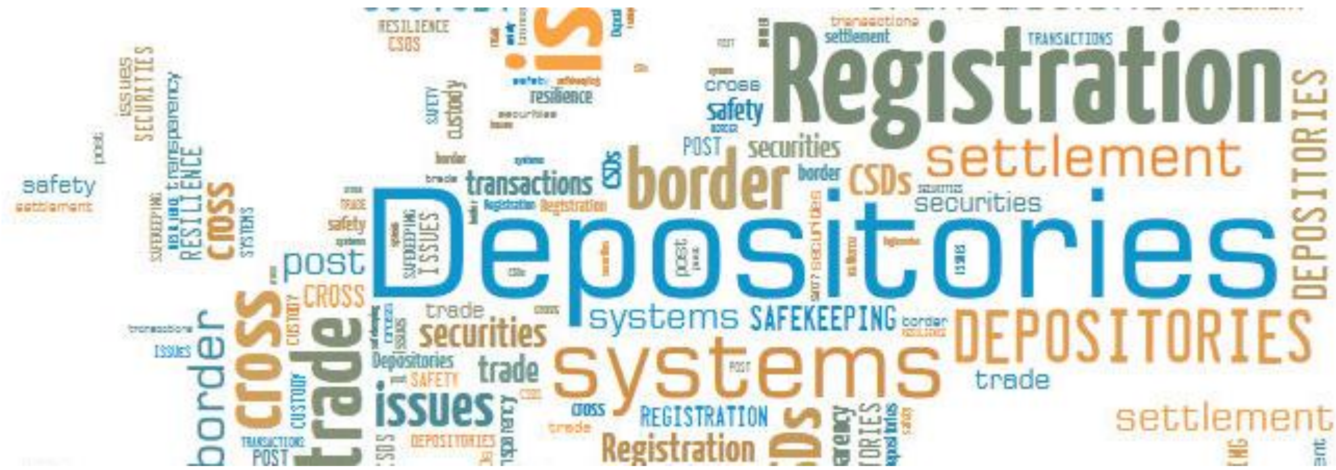

- **CS Neeraj Vasudevan**

DEPOSITORIES

Depositories are one of the important intermediaries in the Indian Capital Market and their functionality can be compared to banking entities. Depository is an organization or a system where securities of the investors are held in electronic form. The depository facilitates safe keeping of securities. The depository transfers securities between accounts on the instruction of account holders. To utilize the services offered by a Depository, the investor has to open an account with the Depository through a Depository Participant.

The erstwhile settlement system on Indian stock exchanges involved movement of paper securities to the issuer for registration, with the change of ownership being evidenced by an endorsement on the security certificate. Theft, forgery, mutilation of certificates and other irregularities provided the issuer right to refuse the transfer of a security. Added costs and delays in settlement, restricted liquidity and made investor grievance redressal time–consuming process. To obviate these problems, the Depositories Act, 1996 was passed and subsequently the regulations were notified.

Legal framework

Depositories Act, 1996

(No. 22 of 1996)

6 Chapters

1 Schedule

31 Sections

Securities and Exchange Board of India (Depositories and Participants), 1996

And

Amendment regulations

As per Section 2(e) of the Depositories Act, 1996, “Depository means a company formed and registered under the Companies Act, 2013 and which has been granted a certificate of registration under Section 12(1A) of the SEBI Act, 1992”. A depository cannot act as a depository unless it obtains a certificate of commencement of business from SEBI.

As per Section 2(g), "participant" means a person registered as such under subsection (1A) of section 12 of the Securities and Exchange Board of India Act, 1992.

There are 2 depositories functioning in India. They are -

1. National Securities Depository Limited (NSDL)
2. Central Depository Services (India) Limited (CDSL).

NSDL

NSDL, the first and largest depository in India, established in August 1996 and promoted by institutions of national stature responsible for economic development of the country has since established a national infrastructure of international standards that handles most of the securities held and settled in dematerialized form in the Indian capital market. NSDL is promoted by Industrial Development Bank of India (IDBI) - the largest development bank of India, Unit Trust of India (UTI) - the largest mutual fund in India and National Stock Exchange (NSE) - the largest stock exchange in India. Some of the prominent banks in the country have taken a stake in NSDL.

CDSL

CDSL was initially promoted by BSE Ltd. which has thereafter divested its stake to leading banks as "Sponsors" of CDSL. CDSL was set up with the objective of providing convenient, dependable and secure depository services at affordable cost to all market participants. . The initial capital of the company is 104.50 crores (INR).

Some of the important milestones of CDSL system are:

1) CDSL received the certificate of commencement of business from SEBI in February, 1999.
2) Honorable Union Finance Minister, Shri Yashwant Sinha flagged off the operations of CDSL on July 15, 1999.
3) Settlement of trades in the demat mode through BOI Shareholding Limited, the clearing house of BSE Ltd., started in July 1999.
4) All leading stock exchanges like the BSE Ltd, National Stock Exchange and Metropolitan Stock Exchange of India have established connectivity with CDSL.

The depositories provide facilities like account opening, dematerialization, settlement of trades and advanced facilities like pledging, distribution of non-cash corporate actions, distribution of securities to allottees in case of public issues, etc. All the securities held by a depository shall be dematerialized and shall be in a fungible form. To utilize the services offered by a depository, the investor has to open an account with the depository through a participant, similar to the opening of an account with any of the bank branches to utilize services of that bank. Registration of the depository is required under SEBI (Depositories and Participants)

Regulations, 1996 and is a precondition to the functioning of the depository. Depository and depository participant both are regulated by SEBI.

In the depository system, share certificates belonging to the investors are to be dematerialized and their names are required to be entered in the records of depository as beneficial owners. Consequent to these changes, the investors' names in the companies' register are replaced by the name of depository as the registered owner of the securities. The depository, however, does not have any voting rights or other economic rights in respect of the shares as a registered owner. The beneficial owner continues to enjoy all the rights and benefits and is subject to all the liabilities in respect of the securities held by a depository. Shares in the depository mode are fungible. The transfer of ownership changes in the depository is done automatically on the basis of delivery vs. payment.

<u>Benefits of depository system</u>:-

1) Elimination of bad deliveries
2) Elimination of all risks associated with physical certificates like theft of stock, mutilation of certificate, loss of certificates etc.
3) Immediate transfer and registration of securities
4) Faster disbursement of non cash benefits like rights, bonus etc.
5) Reduction in brokerages by many brokers for trading in dematerialized securities
6) Elimination of problems relating to change of address of investors, transmission etc

<u>Comparison of depository system with that of a banking system</u>

A bank holds funds in accounts	Depository holds securities in accounts for its clients
A Bank transfers funds between accounts	Depository transfers securities between accounts
the transfer of funds without the actual handling of funds	the transfer of securities without the actual handling of securities

Models of depository

Immobilization

Dematerialization

Immobilization - Where physical share certificates are kept in vaults with the depository for safe custody. All subsequent transactions in these securities take place in book entry form. The actual owner has the right to withdraw his physical securities as and when desired.

Dematerialization – No Physical scrip in existence, only electronic records maintained by depository. This type of system is cost effective and simple and has been adopted in India. Dematerialization is a process by which the physical share certificates of an investor are taken back by the Company and an equivalent number of securities are credited his account in electronic form at the request of the investor.

The legal framework for depository system in the Depositories Act, 1996 provides for the establishment of single or multiple depositories. Any Body for becoming eligible to provide depository services must be formed and registered as a company under the Companies Act, 2013 and seek registration with SEBI and obtain Certificate of Commencement of Business from SEBI, on fulfillment of the prescribed conditions. The investors opting to join depository mode are required to enter into an agreement with depository through a participant who acts as an agent of depository. The agencies such as custodians, banks, financial institutions, large corporate brokerage firms, non-banking financial companies etc. act as participants of depositories. The companies issuing securities are also required to enter into an agreement with the Depository.

<u>Depository participant</u>

- DP is a stock market intermediary
- And also a representative of the investor in the depository system
- Providing link between Company and investors
- Through the depository

Eg: Geojit BNP Paribas Financial Services Limited, Nirmal Bang Securities Private Limited, Sharekhan Limited, Kotak Securities Ltd, SBI Cap Securities Limited, Karvy Stock Broking Ltd etc

According to SEBI guidelines, financial institutions like banks, custodians, stock-brokers etc can become participants in the depository. A DP is one with whom an investor needs to open an account to deal in shares in electronic form.

Objectives of Depositories Act, 1996:-

1) For the establishment of depositories legally.
2) For conducting the task of maintenance of ownership records of securities.
3) For effecting ownership records of securities through book entry.
4) Dematerialization and rematerialization of securities.
5) Making the securities fungible.
6) For making the securities and its interest thereon of public and listed companies freely transferrable.
7) For exempting all transfer of shares within a Company free from stamp duty.

Eligibility conditions for depository services:-

Any body/entity/institution to be eligible to provide depository services must-

1. Be formed and registered as a Company under the Companies Act.
2. Be registered as depository with SEBI as per SEBI Act, 1992
3. Form its bylaws with the previous approval of SEBI.
4. Have one or more participants to render depository services on its behalf.
5. Have adequate systems and safeguards to prevent manipulation of records and transactions to the satisfaction of SEBI.
6. Comply with Depositories Act, 1996 and SEBI (Depositories and Participants) Regulations, 1996
7. Meet eligibility criteria in terms of constitution, net worth etc.

Dematerialization	Rematerialization
1)Investor opens account with DP 2)Fills DRF for registered shares 3)Investor lodges DRF and certificates with DP 4)DP intimates Depository 5)Depository intimates Registrar/Issuer 6)Registrar/Issuer confirms demat to Depository 7)Depository credits investor's account	1) Client submits RRF to DP 2) DP intimates depository 3) Depository intimates the Registrar/Issuer 4) DP sends RRF to Registrar/Issuer 5)Registrar/Issuer sends printed share certificates to Investor 6)Registrar/Issuer confirms remat to depository 7) Investor's account with DP is debited

An overview of Chapter III - Rights and Obligations of Depositories, Participants, Issuers and Beneficial Owners under the Depositories Act, 1996

Section 8 - Options to receive security certificate or hold securities with depositor.

(1) Every person subscribing to securities offered by an issuer shall have the option either to receive the security certificates or hold securities with a depository.

(2) Where a person opts to hold a security with a depository, the issuer shall intimate such depository the details of allotment of the security, and on receipt of such information the depository shall enter in its records the name of the allottees as the beneficial owner of that security.

Section 9 - Fungibility

- Sub section 1 of Section 9 says that "All securities held by a depository shall be dematerialized and shall be in a fungible form".
- All the certificates of the same security shall become interchangeable in the sense that the investor loses the right to obtain the exact certificate he surrenders at the time of entry into the depository.
- It is just like that of withdrawing money from the bank without bothering about the distinctive number of currencies.

Section 10 - Rights of depositories and beneficial owner

1) Effecting transfer of ownership - A depository shall be deemed to be the registered owner for the purposes of effecting transfer of ownership of security on behalf of a beneficial owner.
2) Voting rights - The depository as a registered owner shall not have any voting rights or any other rights in respect of securities held by it.
3) Rights and liabilities of the beneficial owner - The B.O shall be entitled to all the rights and benefits and be subjected to all the liabilities in respect of his securities held by a depository.

Section 11 - Register of beneficial owner

Every depository shall maintain a register and an index of beneficial owners in the manner provided in the Companies Act, 2013.

Section 12 - Pledge or hypothecation of securities held in a depository

- A beneficial owner may with the previous approval of the depository create a pledge or hypothecation in respect of a security owned by him through a depository.
- Every beneficial owner shall give intimation of such pledge or hypothecation to the depository and such depository shall thereupon make entries in its records accordingly
- Any entry in the records of a depository as mentioned above shall be evidence of a pledge or hypothecation.

Section 13 - Furnishing of information and records by depository and issuer

- Every depository shall furnish to the issuer the information about the transfer of securities in the name of beneficial owners at such intervals and in such manner as may be prescribed in the bylaws.
- Every issuer shall make available to the depositories, the copies of the relevant records in respect of securities held by such depository.

Section 14 - Option to opt out in respect of any security

- If a beneficial owner seeks to opt out of a depository in respect of any security he shall inform the depository accordingly.
- The depository shall on receipt of intimation make appropriate entries in its records and shall inform the issuer.
- Every issuer shall, within thirty days of the receipt of intimation from the depository and on fulfillment of such conditions and on payment of such fees as may be specified by the regulations, issue the certificate of securities to the beneficial owner or the transferee, as the case may be.

Section 16 -Depositories to indemnify loss in certain cases

- Any loss caused to the beneficial owner due to the negligence of the depository or the participant, the depository shall indemnify such beneficial owner.
- Where the loss due to the negligence of the participant is indemnified by the depository, the depository shall have the right to recover the same from such participant.

An overview of Chapter IV - Enquiry and Inspection under the Depositories Act, 1996

Power of SEBI to -

Call for information and enquiry - Section 18

The Board, on being satisfied that it is necessary in the public interest or in the interest of investors so to do, may, by order in writing,-

(a)Call upon any issuer, depository, participant or beneficial owner to furnish in writing such information relating to the securities held in a depository as it may require; or

(b) Authorize any person to make an enquiry or inspection in relation to the affairs of the issuer, beneficial owner, depository or participant, who shall submit a report of such enquiry or inspection to it within such period as may be specified in the order.

Every director, manager, partner, secretary, officer or employee of the depository or issuer or the participant or beneficial owner shall on demand produce before the person making the enquiry or inspection all information or such records and other documents in his custody having a bearing on the subject matter of such enquiry or inspection.

To give directions in certain cases - Section 19

After making or causing to be made an enquiry or inspection, the Board is satisfied that it is necessary-

(i) in the interest of investors, or orderly development of securities market; or

(ii) to prevent the affairs of any depository or participant being conducted in the manner detrimental to the interests of investors or securities market, it may issue such directions-

(a) to any depository or participant or any person associated with the securities market; or (b) to any issuer, as may be appropriate in the interest of investors or the securities market.

To adjudicate - Section 19H

For the purpose of adjudging under relevant sections under this Act, SEBI shall appoint any officer not below the rank of a Division Chief of the Securities and Exchange Board of India to be an adjudicating officer for holding an inquiry in the prescribed manner after giving any person concerned a reasonable opportunity of being heard for the purpose of imposing any penalty.

While holding an inquiry, the adjudicating officer shall have power to summon and enforce the attendance of any person acquainted with the facts and circumstances of the case to give evidence or to produce any document, which in the opinion of the adjudicating officer, may be useful for or relevant to the subject-matter of the inquiry and if, on such inquiry, he is satisfied that the person has failed to comply with the provisions of any of the relevant section, he may impose such penalty as he thinks fit in accordance with the provisions of any of those sections.

To grant immunity - Section 22B

(1) The Central Government may, on recommendation by the Board, if the Central Government is satisfied, that any person, who is alleged to have violated any of the provisions of this Act or the rules or the regulations made there under, has made a full and true disclosure in respect of alleged violation, grant to such person, subject to such conditions as it may think fit to impose, immunity from prosecution for any offence under this Act, or the rules or the regulations made there under or also from the imposition of any penalty under this Act with respect to the alleged violation: Provided that no such immunity shall be granted by the Central Government in cases where the proceedings for the prosecution for any such offence have been instituted before the date of receipt of application for grant of such immunity: Provided further that recommendation of the Board under this sub-section shall not be binding upon the Central Government. 7 Section 22A and 22B inserted by Securities Laws (Amendment) Act, 2005 (1 of 2005) w.e.f. 12-10-2004. 21 of 36.

(2) An immunity granted to a person under sub-section (1) may, at any time, be withdrawn by the Central Government, if it is satisfied that such person had, in the course of the proceedings, not complied with the condition on which the immunity was granted or had given false evidence, and thereupon such person may be tried for the offence with respect to which the

immunity was granted or for any other offence of which he appears to have been guilty in connection with the contravention and shall also become liable to the imposition of any penalty under this Act to which such person would have been liable, had not such immunity been granted.]

To make regulations - Section 25

Section 25 of the Depositories Act, 1992 read with Section 30 of the SEBI Act, 1992 empowers SEBI to make regulations for carrying out the purpose of the Act, by notification in the Official Gazette. Such regulations may provide for -

- *The form in which record is to be maintained under clause (i) of subsection (1) of section 2*
- *The form in which the certificate of commencement of business shall be issued*
- *The manner in which the certificate of security shall be surrendered*
- *The manner of creating a pledge or hypothecation in respect of security owned by a beneficial owner*
- *The conditions and the fees payable with respect to the issue of certificate of securities*
- *The rights and obligations of the depositories, participants and the issuers*
- *The eligibility criteria for admission of securities into the depository*

Chapter V - Penalty

Failure to furnish information/return etc (Section 19A)

Failure to enter into agreement (Section 19B)

Failure to redress investors' grievances (Section 19C)

Failure to comply with directions issued by SEBI (Section 19F)

Failure for delay in dematerialization or issue of certificate of securities (Section 19D)

Failure to reconcile records (Section 19E)

Failure to comply directions issued by SEBI (Section 19F)

The person concerned/Depository/Participant/Issuer/Intermediary shall beliable for penalty which shall not be **less than Rs. 1 lakh for each day during which such failure continues subject to a maximum of Rs. 1 Crore.**

Contravention where no separate penalty has been provided

The person concerned/Depository/Participant/Issuer/Intermediary shall be liable for penalty which shall not be **less than Rs. 1 lac but may extend up to Rs. 1 crore.**

Section 19J - Crediting of penalties to Consolidated Fund of India

All sums realized by way of penalties under this Act shall be credited to the Consolidated Fund of India.

This term derives its origin from the Constitution of India.

Under Article 266 (1) of the Constitution of India, all revenues (example tax revenue from personal income tax, corporate income tax, customs and excise duties as well as non-tax revenue such as licence fees, dividends and profits from public sector undertakings etc.) received by the Union government as well as all loans raised by issue of treasury bills, internal and external loans and all moneys received by the Union Government in repayment of loans shall form a consolidated fund entitled the 'Consolidated Fund of India' for the Union Government.

Similarly, under Article 266 (1) of the Constitution of India, a Consolidated Fund Of State (a separate fund for each state) has been established where all revenues (both tax revenues such as Sales tax/VAT, stamp duty etc..and non-tax revenues such as user charges levied by State governments) received by the State government as well as all loans raised by issue of treasury bills, internal and external loans and all moneys received by the State Government in repayment of loans shall form part of the fund.

The Comptroller and Auditor General of India audits these Funds and reports to the Union/State legislatures when proper accounting procedures have not been followed.

Section 20 and 21 - Offences

Any person contravenes the provisions of the Act, Rules or Regulations or Bylaws or if any person fails to pay the penalty imposed by the adjudicating officer of fails to comply with any of his directions or orders.

↓

Person shall be punishable with imprisonment for a period of at least 1 month but which can be extended up to 10 years or with fine which may extend up to INR 25 crores or with both.

Any person contravenes the provisions of the Act, Rules or Regulations or Bylaws or if any person fails to pay the penalty imposed by the adjudicating officer of fails to comply with any of his directions or orders.

↓

Such persons as well as the Company shall be deemed to be guilty of the offence and shall be liable to be proceeded against and punishable as prescribed.

(1) No court shall take cognizance of any offence punishable under this Act or any rules or regulations or bye-laws made there under, save on a complaint made by the Central Government or State Government or the Securities and Exchange Board of India or by any person.
(2) No court inferior to that of a Court of Session shall try any offence punishable under this Act.

Section 22A - Composition of certain offences

Notwithstanding anything contained in the Code of Criminal Procedure, 1973 (2 of 1974), any offence punishable under this Act, not being an offence punishable with imprisonment only, or with imprisonment and also with fine, may either before or after the institution of any proceeding, be compounded by a Securities Appellate Tribunal or a court before which such proceedings are pending.

Section 22C - Establishment of Special Courts

The Central Government may, for the purpose of providing speedy trial of offences under this Act, by notification, establish or designate as many Special Courts as may be necessary.

Section 22D - Offences triable by Special Courts

All offences under this Act committed shall be taken cognizance of and triable by the Special Courts.

Bylaws of a depository

- Section 26 deals with power of the depository to make bylaws. It has to obtain prior approval of SEBI and should ensure that the bylaws are in conformity with the provisions of this Act and the Regulations framed by SEBI.

- However SEBI has the power to direct the depository to amend or revoke any bylaw already made, wherever it considers expedient to do so.

- If the directions of SEBI are neglected by depository, SEBI may make the bylaw or amend it on its own.
  Contents of the bylaws are as follows:-

  - Eligibility criteria for admission and removal of securities in depository
  - Conditions subject to which the securities shall be dealt in
  - Procedures for transactions within the depository
  - Manner and procedure for dematerialization of securities
  - Eligibility criteria for admission of any person as DP
  - Manner of creating pledge or hypothecation in respect of the securities held within a depository.
  - The internal control standards including procedure for auditing, reviewing and monitoring

SEBI has issued SEBI (Depositories and Participants) Regulations, 1996 which applies to depositories and its participants. These regulations also contain provisions for operating and functioning of depositories, form for application and certificates used and schedule of fee for participants etc. It also contains provisions for registration of depository and depository participants, rights and obligations of various users and constituents, inspection and procedure for action in case of default.

As per the regulation, every depository has to state in its bylaw the eligible securities for dematerialization which includes shares, scrips, bonds, debentures, govt. securities and even unlisted securities.

There should be an agreement between the issuer and the depository in respect of securities disclosed as eligible to be held in demat form. This is not applicable in case of issue of govt. securities by SG/CG. Similarly DPs are required to enter into an agreement with B.O. separate accounts are to be opened by the DPs in the name of each B.O.

Maintenance of records and documents

1) <u>By the Depository</u>

   - Records of securities dematerialized and rematerialized
   - The names of transferor, transferee and the dates of transfer of securities
   - A register and index of B.O
   - Details of DPs
   - Records of approval, notice, entry and cancellation of pledge or hypothecation as the case may be
   - Details of holding of securities of B.O as at the end of each day

   Theses records and documents have to be preserved for a minimum period of 5 years.

2) <u>By the DP</u>

   - Records of all the transactions entered with Depository
   - Records of all the transactions entered with BO
   - Details of securities dematerialized and rematerialized
   - Records of instructions received from the beneficial owners
   - Statement of account provided to the B.Os
   - Record of approval, notice, entry and cancellation of pledge/hypothecation

<u>Governing Board, Disclosures and Corporate Governance of Depository</u>

This regulations deal with the composition of Governing board of a Depository.
– The governing board of every depository is required to include:
(a) Shareholder directors;
(b) Public interest directors; and
(c) Managing director.
– Any employee of a depository may be appointed on the governing board in addition to the managing director, and such director shall be deemed to be a shareholder director.
– The chairperson shall be elected by the governing board from amongst the public interest directors subject to prior approval of SEBI.
– The number of public interest directors shall not be less than the number of shareholder directors in a depository.

– The managing director shall be an ex-officio director on the governing board and shall not be included in either the category of public interest directors or shareholder directors.
The disclosure requirements and corporate governance norms as specified for listed companies shall mutatis mutandis apply to a depository.

Investor Protection Fund of Depositories

Regulation 53C - Every depository is required to establish and maintain an Investor Protection Fund for the protection of interest of beneficial owners. This fund shall not be used for indemnifying B.Os under Section 16 of the Depositories Act, 1996.

Contribution to IPF -

(a) Every depository shall credit 5% of their profits from depository operations every year to IPF.
(b) All fines and penalties recovered from DOS
(c) Interest/income received out of investments made from the IPF
(d) Funds lying to credit of IPR/BOPF

Utilization -

(a) Promotion of investor education
(b) Promotion of investor awareness
(c) Aid, foster, support, promote development the securities market
(d) To utilize the fund for supporting initiatives of DPs for (a),(b),(c)
(e) To utilize the fund in any other manner as specified by SEBI for investor protection

Designated depository participant

"Designated depository participant" means a person who has been approved by SEBI under Chapter III of SEBI (Foreign Portfolio Investors) Regulations, 2014. A person shall not act as designated depository participant unless it has obtained the approval of SEBI.

Business Continuity Plan

A depository shall have adequate Business Continuity Plan for data and electronic records to prevent prepare for and recover from any disaster.

Audit

Regulation 55A of SEBI (Depositories and Participants) Regulations, 1996 provides that every issuer shall submit audit report on a quarterly basis to the concerned stock exchanges audited by a practicing Company Secretary or a qualified Chartered Accountant, for the purposes of reconciliation of the total issued capital, listed capital and capital held by depositories in dematerialized form, the details of changes in share capital during the quarter and the in-principle approval obtained by the issuer from all the stock exchanges where it is listed in respect of such further issued capital. The audit report is required to give the updated status of the register of members of the issuer and confirm that securities have been dematerialized as per requests within 21 days from the date of receipt of requests by the issuer and where the dematerialization has not been effected within the said stipulated period, the report would disclose the reasons for such delay. The issuer is under an obligation to immediately bring to the notice of the depositories and the stock exchanges, any difference observed in its issued, listed, and the capital held by depositories in dematerialized form.

<u>Internal audit of DPs</u>

The two Depository service providers in India, viz., National Securities Depository Ltd. (NSDL) and Central Depository Services (India) Limited (CDS) have allowed Company Secretaries in Whole-time Practice to undertake internal audit of the operations of Depository Participants (DPs).

NSDL has vide its circular No. NSDL/SG/II/010/99 dated 26th March 1999 notified amendment of its Bye Law 10.3.1 of Chapter 10 as follows:

10.3.1 "Every Participant shall ensure that an internal audit in respect of the operations of the Depository is conducted at intervals of not more than three months by a qualified Chartered Accountant or a Company Secretary holding a certificate of Practice and a copy of the internal audit report shall be furnished to the Depository."

CDSL has vide its letter dated September 28, 1999 notified amendment of its Bye Laws 16.3.1 as follows:

> 16.3.1 "Every Participant shall ensure that an internal audit shall be conducted in respect of the participant's operations relating to CDS by a qualified Chartered Accountant in accordance with the provisions of the Chartered Accountants Act, 1949 or by a Company Secretary in practice in accordance with the provisions of the Company Secretaries Act, 1980, at such intervals as may be specified by CDS from time to time. A copy of Internal Audit report shall be furnished to CDS."

<u>Concurrent Audit</u>

National Securities Depository Limited vide its Circular No. NSDL/POLICY/ 2006/0021 dated June 24, 2006 provides for concurrent audit of the Depository Participants. The Circular provides that w.e.f. August 1, 2006, the process of demat account opening, control and verification of Delivery Instruction Slips (DIS) is subject to Concurrent Audit. Depository Participants have been advised to appoint a firm of qualified Chartered Accountant(s) or Company Secretary(ies) holding a certificate of practice for conducting the concurrent audit. However, the participants in case they so desire, may entrust the concurrent audit to their

Internal Auditors. In respect of account opening, the auditor should verify all the documents including KYC documents furnished by the Clients and verified by the officials of the Participants. The scope of concurrent audit with respect to control and verification of DIS cover the areas given below:

(I) Issuance of DIS

The procedure followed by the Participants with respect to:

(a) Issuance of DIS booklets including loose slips.

(b) Existence of controls on DIS issued to Clients including pre-stamping of Client ID and unique preprinted serial numbers.

(c) Record maintenance for issuance of DIS booklets (including loose slips) in the back office.

(II) Verification of DIS

The procedure followed by the Participants with respect to:

(a) Date and time stamping (including late stamping) on instruction slips.

(b) Blocking of used/reported lost/stolen instruction slips in back office system/ manual record.

(c) Blocking of slips in the back office system/manual record which are executed in DPM directly.

(d) Two step verification for a transaction for more than Rs. 5 lakh, especially in case of off-market transactions.

(e) Instructions received from dormant accounts.

The Concurrent Auditor should conduct the audit in respect of all accounts opened, DIS issued and controls on DIS as mentioned above, during the day, by the next working day. In case the audit could not be completed within the next working day due to large volume, the auditor should ensure that the audit is completed within a week’s time.

Any deviation and/or non-compliance observed in the aforesaid areas should be mentioned in the audit report of the Concurrent Auditor. The Management of the Participant should comment on the observations made by the Concurrent Auditor. The Concurrent Audit Report should be submitted to NSDL, on a quarterly basis, in a hard copy form. If the Auditor for Internal and Concurrent Audit is the same, consolidated report may be submitted.