



# Central Depository Services (India) Limited

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## COMMUNIQUÉ TO DEPOSITORY PARTICIPANTS

CDSL/OPS/DP/SYSTEM/2021/309

July 15, 2021

### SURVEILLANCE OBLIGATION OF DEPOSITORY PARTICIPANT

As Depository Participants (DPs) may be aware, Stock Exchanges (NSE, BSE & MSEI) have issued Circular to their Trading Members regarding surveillance obligation of Trading Members to facilitate effective surveillance of trading activities of clients.

In order to further strengthen the Surveillance framework for the Securities Market, all DPs are hereby advised to put in place a surveillance framework, which shall cover the following:

#### A. Obligation of Depository Participants to frame Surveillance Policy

DPs shall frame a surveillance policy based on nature of DP business (i.e., Bank, Stockbroker, Custodian etc.), type of clients, number of demat accounts, number of transactions etc. and which shall, inter alia, cover the following:

- i. Generation of suitable surveillance alerts which may be guided by indicative themes (the list is inclusive and not exhaustive) given in point B below
- ii. Review and disposal of transactional alerts provided by CDSL (Transactional alerts provided by CDSL will be based on some thresholds. DPs may have their own different thresholds or own parameters to generate additional alerts of their own in point I above, so as to detect any suspicious transaction activity).
- iii. Disposal of alerts within 30 days from the date of alerts generated at DP end and alerts provided by CDSL.
- iv. Reporting to CDSL and other authorities as applicable, in case of any abnormal activity
- v. Documentation of reasons for delay, if any, in disposition of alerts.
- vi. Framework of appropriate actions that can be taken by the Participant as per obligations under Prevention of Money Laundering Act (PMLA)
- vii. Record maintenance for the period as stipulated under applicable statutes
- viii. The surveillance policy of the DPs shall be reviewed once in a year

The surveillance policy of the Participant shall be approved by its Board of Directors. In case, the DP is incorporated outside India, then the surveillance policy of the DP may be approved by a Committee constituted to oversee its Indian Operations.

#### B. Obligation of DPs to generate additional surveillance alerts

DPs are required to generate appropriate surveillance alerts at their end, to enable them to effectively monitor the transactions of their clients at their end as per the laid down surveillance policy. The indicative themes on which DPs may formulate their own alerts are as under. The DPs



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also needs to analyse patterns and trends with respect to different themes. **DPs shall put in place system to generate these alerts with effect from October 1, 2021 and obtain the approval of its Board in its next meeting.**

| Sr. No. | Indicative themes:  |
|---------|---|
| 1       | Alert for multiple demat accounts opened with same demographic details: Alert for accounts opened with same PAN /mobile number / email id/ bank account no. / address considering the existing demat accounts held with the DP.   |
| 2       | Alert for communication (emails/letter) sent on registered Email id/address of clients are getting bounced.   |
| 3       | Frequent changes in details of demat account such as, address, email id, mobile number, Authorized Signatory, POA holder etc.   |
| 4       | Frequent Off-Market transfers by a client in a specified period   |
| 5       | Off-market transfers not commensurate with the income/Networth of the client.   |
| 6       | Pledge transactions not commensurate with the income/Networth of the client.  |
| 7       | Off-market transfers (High Value) immediately after modification of details in demat account  |
| 8       | Review of reasons of off-market transfers provided by client for off-market transfers vis-à-vis profile of the client e.g. transfers with reason code Gifts with consideration, frequent transfers with reason code Gifts/Donation to unrelated parties, frequent transfers with reason code off-market sales |
| 9       | Alert for newly opened accounts wherein sudden Increase in transactions activities in short span of time and suddenly holding in demat account becomes zero or account becomes dormant after some time.   |
| 10      | Any other alerts and mechanism in order to prevent and detect any type of market manipulation activity carried out by their clients.  |

DPs should note that the above-mentioned alerts will be generated based on some threshold/parameters and are illustrative and not exhaustive. DPs have to analyze and review these alerts based on facts and verification of relevant documents including income/networth as provided by BO. Further, DPs are required to exercise their independent judgment and take appropriate action in order to detect any abnormal or suspicious transactions.

### C. Obligation of Depository Participants regarding Client due diligence:

The following activities required to be carried out by DPs for client due diligence:

- i. DPs are required to carry out the Due Diligence of their client(s) on an on-going basis.
- ii. DPs shall ensure that key KYC parameters of the clients are updated on a periodic basis as prescribed by SEBI and latest information of the client is updated in Depository System.



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### **D. Obligation of DPs for reporting the status of alerts generated by DPs**

- DPs are required to maintain register (electronic/physical) for recording of all alerts generated.
- While reviewing alerts, DP shall obtain transaction rationale, verify demat statement and also obtain supporting documents as required from the client
- After verifying the documentary evidences, DPs will record its observations for such identified transactions of its Client.
- With respect to the transactional alerts provided by Depository, DP shall ensure that all alerts are reviewed, and status thereof (Verified & Closed / Verified & Reported to Depository) including action taken is updated within 30 days. Detailed procedure w.r.t sharing of alert by CDSL with DPs and report submission by DPs in this regard will be provided separately.
- With respect to the alerts generated at the DP end, DP shall report instances with adverse observation, along with details of action taken, to CDSL within 7 days of the date of identification of adverse observation. Detailed procedure w.r.t reporting of alert by Participants will be provided separately

### **E. Obligation of Compliance officer and Internal Auditor/Concurrent Auditor of the DP**

- The surveillance activities of DP shall be conducted under overall supervision of its Compliance Officer.
- A quarterly MIS shall be put up to the Board on the number of alerts pending at the beginning of the quarter, generated during the quarter, processed and acted upon during the quarter and cases pending at the end of the quarter along with reasons for pendency and action plan for closure. Also, the Board shall be apprised of any exception noticed during the disposal of alerts.
- Internal auditor of DP shall review the surveillance policy, its implementation, effectiveness and review the alerts generated during the period of audit. Internal auditor shall record the observations with respect to the same in their report.
- Internal Auditor shall verify that the quarterly MIS is prepared and placed before the Board of the DP.

### **F. Obligation of Quarterly reporting of status of the alerts generated by DPs**

DPs are also required to provide duly approved status of the alerts on a quarterly basis, in the following format to CDSL within 15 days from end of the quarter.



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Status of Alerts generated by the Depository:

| Name of Alert | No. of alerts pending at the beginning of quarter | No. of new alerts generated in the quarter | No. of alerts Verified & closed in the quarter | No. of alerts reported to Depository | No. of alerts pending process at the end of quarter |
|---------------|---|--|--|--------------------------------------|---|
|               |   |  |  |                                      |   |

Details of any major surveillance action taken (other than alerts reported to Depository), if any, during the quarter:

| Sr. No. | Brief action taken during the quarter |
|---------|---------------------------------------|
|         |                                       |
|         |                                       |

DPs who do not have anything to report, need to submit 'NIL Report' within 15 days from end of the quarter. Electronic Upload facility will be provided to DPs. The above-mentioned quarterly system of reporting shall be effective from the quarter ending December 2021.

### G. Penalty in case of late / non-submission of Quarterly Reporting of status:

In case of late / non-submission of quarterly report of the alerts generated by DP, as mentioned at **Point B** above, CDSL may levy penalty.

### H. Disciplinary action for non-fulfilment of Surveillance obligation by DP:

- DPs are advised to note that during CDSL inspection, if it is observed that the DP has not fulfilled their surveillance obligations, then appropriate disciplinary action shall be initiated against the DP.
- Any non-compliance with respect to surveillance obligations which may inter alia include delay in processing of alerts generated by DP / provided by CDSL and repeated instances of delay in reporting of the status of alerts, may result in further disciplinary action as deemed fit in terms of DP Operating instructions and Bye-laws of Depositories.
- It may further be noted that aforesaid measure does not preclude SEBI / Depository to take any further action(s), if the facts and circumstances so demand.

**Compliance officer will be required to confirm compliance for point A as mentioned above (Surveillance Policy to be framed by DPs) by sending email to [cdslalerts@cdslindia.com](mailto:cdslalerts@cdslindia.com) on or before August 14, 2021**

DPs are advised to note the same and make necessary changes, in their back-office system.



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Queries regarding this communiqué may be addressed to **CDSL – Helpdesk**: on telephone numbers (022) 2305-8624, 2305-8639, 2305-8642, 2305-8663, 2305-8640, 2300-2041 or 2300-2033. Emails may be sent to: [helpdesk@cdslindia.com](mailto:helpdesk@cdslindia.com).

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**Umesh Kambli**  
**Asst. Vice President – Surveillance**