

Circular No.: NSDL/POLICY/2021/0072

Date: July 15, 2021

Subject: Surveillance Obligations for Depository Participants.

As Participants 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 Participants are hereby advised to put in place a surveillance framework, which shall cover the following:

1. Obligation of Depository Participants to frame Surveillance Policy:

Participants shall frame a surveillance policy based on nature of their depository business, type of clients, number of demat accounts, number of transactions etc. which shall, inter alia, cover the following:

- a. Generation of suitable surveillance alerts which may be guided by indicative themes given in point no. 2 below (the list is inclusive and not exhaustive).
- b. Review and disposal of transactional alerts provided by NSDL (Transactional alerts provided by NSDL are based on certain thresholds. Participants may have their own different thresholds or own parameters to generate additional alerts of their own in clause 'a' above so as to detect any abnormal activity).
- c. Disposal of alerts within 30 days from the date of alerts generated at Participants end and alerts provided by NSDL.
- d. Reporting to NSDL and other authorities as applicable in case of any abnormal activity.
- e. Documentation of reasons for delay, if any, in disposal of alerts.
- f. Framework of appropriate actions that can be taken by the Participant as per obligations under Prevention of Money Laundering Act (PMLA).
- g. Record maintenance for the period as stipulated under applicable statutes.
- h. The surveillance policy of the Participants shall be reviewed once in a year.

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

2. Obligation of Depository Participants to generate Surveillance Alerts:

Participants are required to generate appropriate surveillance alerts at their end, to enable them to effectively monitor the transactions of their clients as per the laid down surveillance policy. The indicative themes on which Participants may formulate their own alerts are as under. The Participants also need to analyse patterns and trends with respect to different themes. Participants shall put in place system to generate these alerts with effect from October 01, 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 Participant.
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

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

3. Obligation of Depository Participants regarding Client due diligence:

The following activities required to be carried out by Participant for client due diligence is being reiterated:

- a. Participants are required to carry out the Due Diligence of their client(s) on an on-going basis.
- b. Participants 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.

4. Obligation of Depository Participants to w.r.t. Processing of Alerts:

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

5. Obligation of Compliance officer and Internal Auditor/Concurrent Auditor of the Participants:

- a. The surveillance activities of Participant shall be conducted under overall supervision of its Compliance Officer.
- b. 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.
- c. Internal auditor of Participant 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.
- d. Internal Auditor shall verify that the quarterly MIS is prepared and placed before the Board of the Participant.

6. Obligation of Quarterly reporting of status of the alerts generated by Participants:

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

- a. 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 for process at the end of quarter

- b. 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

- c. Participant who do not have anything to report, need to submit 'NIL Report' within 15 days from end of the quarter.
- d. The above details shall be uploaded by the Participants on NSDL e-PASS Portal.
- e. The aforementioned quarterly system of reporting shall be effective from the quarter ending December 2021.

7. 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 Participant as mentioned at Point no.2 above, Participant shall be liable for penalty.

8. Disciplinary action for non-fulfilment of Surveillance obligation by Participant:

- a. Participant may note that during inspection, if it is observed that the Participant has not fulfilled their surveillance obligations, then appropriate disciplinary action shall be initiated against the concerned Participant.
- b. Any non-compliance with respect to surveillance obligations which may inter alia include delay in processing of alerts generated by Participant / provided by NSDL and repeated instances of delay in reporting of the status of alerts, may result in further disciplinary action as deemed fit in terms of Business Rules and Bye-laws of Depositories.
- c. 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 1 (Surveillance policy to be framed by Participants) by sending email to SurveillanceCell@nsdl.co.in on or before August 14, 2021.

Participants are requested to take note of the above and ensure compliance.

For and on behalf of
National Securities Depository Limited

Chirag Shah
Senior Manager

FORTHCOMING COMPLIANCE

Particulars	Deadline	Manner of sending	Reference
Investor Grievance Report (Monthly)	By 10th of the following month.	Through e-PASS	Circular No. NSDL/POLICY/2015/0096 dated October 29, 2015
Internal/ Concurrent Audit Report (October 2020 – March 2021)	July 31, 2021.	Through e-PASS	1. Circular No. NSDL/POLICY/2021/0041 dated May 04, 2021 2. Circular No NSDL/POLICY/2021/0048 dated May 11, 2021
Compliance Certificate (January - June)	July 31st every year	Through e-PASS	Circular No. NSDL/POLICY/2019/0088 dated December 17, 2019.
Artificial Intelligence I/Machine Learning Reporting Form (if offering or using such technologies as defined) (Quarterly)	July 31, 2021	By email at Participant-Interface@nsdl.co.in	1. Circular No. NSDL/POLICY/2019/0016 dated March 27, 2019 2. Circular No. NSDL/ POLICY/2020/0056 dated April 29, 2020 3. Circular No. NSDL/POLICY/2021/0041 dated May 04, 2021
Cyber Security & Cyber Resilience framework of Depository Participants (Quarterly)	By 15th of the following month.	Through e-PASS	1. Circular No. NSDL/POLICY/2019/0039 dated July 9, 2019. 2. Circular no. NSDL/POLICY/2020/0069 dated May 15, 2020.
Risk based Supervision of Participants (October 2020 – March 2021)	July 31, 2021	Through e-PASS	1. Circular No. NSDL/POLICY/2018/0050 dated September 25, 2018 2. Circular No.: NSDL/ POLICY/2020/0082 dated June 16, 2020 3. Circular No. NSDL/POLICY/2021/0041 dated May 04, 2021
Annual System Audit Report for the period ended March 2021	July 31, 2021	Through e-PASS	1. Circular No. NSDL/ POLICY/2020/0056 dated April 29, 2020 2. Circular No. NSDL/POLICY/2020/0071 dated May 19, 2020 3. Circular No. NSDL/POLICY/2020/0106 dated July 31, 2020 4. Circular No. NSDL/POLICY/2021/0041 dated May 04, 2021