

**SEBI Regulations for
Depositories and
Participants, 1996**

**Financial Institutions Reforms and
Expansion (FIRE) Project**

October 25, 1996

**Financial Institutions Reform and Expansion (FIRE) Project
US Agency for International Development (USAID/India)
Contract #386-0531-C-00-5010-00
Project #386-0531-3-30069**

**Price Waterhouse LLP
1616 North Fort Myer Drive
Arlington, VA 22209
Tel (703) 741-1000
Fax (703) 741-1616**

Price Waterhouse LLP



October 25, 1996

Mr. Peter Thormann
Office Director - Office of Economic Growth
US Agency for International Development
B-28 Qutab Institutional Area
Qutab Hotel Road
New Delhi - 110 016

Dear Mr. Thormann,

Sub: SEBI Regulations for Depositories and Participants, 1996.

Price Waterhouse LLP is pleased to present the papers relating to the assistance to SEBI in drafting the "*SEBI Regulations for Depositories and Participants*" provided under the FIRE Project. The final regulations were released by SEBI in June 1996.

As outlined in Section III.B.2. of the Second Annual Work Plan for the period of November 1, 1995 to April 30, 1997, an important component of the FIRE Project is assisting SEBI in the development of regulations which promote structural reforms that support increased transparency and efficiency in the Indian capital markets.

In the case of the Depository and Participants Regulations, PW has been working with SEBI since November 1995 to provide input to Chairman Mehta and the SEBI officials responsible for drafting the regulations. Specific areas of assistance were:

1. The November 1995 visit of regulatory specialist Ms. Jan Aalbrektse Slinn to consult with SEBI officials on the drafting of the regulations.
2. Comments on the proposed regulations provided by Mr. Ned McGuire, Company Secretary, Depository Trust Company (DTC). Mr. McGuire's comments were provided by telephone as DTC was unable to second a party to Bombay on such short notice.
3. The February 1996 trip of Mr. William Dentzer, Chairman of the Depository Trust Company (Retd), and his subsequent March 18, 1996 memorandum to Chairman Mehta commenting on the proposed regulations.

October 25, 1996
Mr. Peter Thormann
Office Director - Office of Economic Growth
Page 2



4. The visit of Chairman Mehta and Executive Director Pratip Kar to the Depository Trust Company and the US Securities and Exchange Commission in May 1996.
5. The May 1996 SEBI Depository Australia/Asia regional study tour.

It was a pleasure to work with Chairman Mehta and Mr. Pratip Kar, Executive Director, in the drafting of these important regulations for the Indian capital markets. The technical assistance provided to SEBI under each of these activities listed above is outlined within.

Sincerely,

W. DENNIS GRUBB
CHIEF OF PARTY

TABLE OF CONTENTS

I.	Trip of Ms. Jan Aalbrechtse Slinn, November 1995	1
II.	Comments by Mr. Ned McGuire, Company Secretary, Depository Trust Company	1
III.	Trip of Mr. William Dentzer, Chairman of the Depository Trust Company (Retd)	2
IV.	Visit of Chairman Mehta and Pratip Kar to the Depository Trust Company and the US Securities and Exchange Commission, May 1996	2
V.	May 1996 SEBI Depository Australia/Asia Regional Study Tour ..	2
Appendix A:	Securities and Exchange Board of India (Depositories and Participants) Regulations, 1996	
Appendix B:	A. Ms. Jan Aalbrechtse Slinn's November 21, 1995 Memorandum to SEBI	
	B. Mr. John Ruckrich's Memorandum of November 17, 1995 on the Multi Depository Environment	
	C. Ms. Jan Aalbrechtse Slinn's November 24, 1995 Memorandum to SEBI	
	D. Ms. Jan Aalbrechtse Slinn's Trip Report for November 16 - 21, 1995	
Appendix C:	A. Mr. William Dentzer's March 18, 1996 Memorandum to Chairman Mehta	
	B. Mr. William Dentzer's Trip Report for February 11 - 16, 1996	
	C. February 8, 1996 Draft of the SEBI Depositories and Participants Regulations	

Price Waterhouse LLP (PW), as the implementor of the USAID Financial Institutions Reform and Expansion (FIRE) Project, provided ongoing assistance, as requested by SEBI, in the drafting of the depository regulations. A copy of the final regulations released this month are provided in Appendix A.

Specific areas of PW assistance to SEBI in drafting these regulations were:

I. Trip of Ms. Jan Aalbrechtse Slinn, November 1995

Ms. Slinn met extensively with Mr. Pratip Kar, Executive Director, and Mr. Nirmal Maru who were responsible for drafting the SEBI regulations to review the regulations and address their areas of concerns. Mr. Dennis Grubb, PW/FIRE Chief of Party, assisted in the meetings.

Ms. Slinn prepared a confidential memorandum dated November 21, 1995 outlining the issues which is presented in Appendix B. Throughout the process Ms. Slinn was in contact with Mr. John Ruckrich, PW/FIRE depository consultant, who provided his views and prepared a memorandum outlining issues related to the multiple depository environment. Mr. Ruckrich's memorandum is also presented in Appendix B.

In addition, Ms. Slinn was in contact with Mr. Ned McGuire, Company Secretary of the DTC for his comments. PW/FIRE had arranged with DTC to provide comments by telephone since DTC could not second a party to Bombay on short notice.

In respect to the concern that the depository meet US SEC 17(f)5 regulations, currently under revision, Ms. Slinn spoke to the US SEC and was informed the amendments have been delayed but were likely in January and the provision for no action letters on multiple depositories will likely be eliminated.

On November 21, Mr. Kar provided Ms. Slinn with a copy of the drafted regulations on a confidential basis which she reviewed and provided comments in her November 24, 1995 memorandum presented in Appendix B. Unfortunately, the copy of the regulations that she was commenting on at that time were considered had to be returned to SEBI and is not available for reproduction in the appendices to this report.

Ms. Slinn's trip report for her visit of November 16 - 21, 1995 is provided in Appendix B.

II. Comments by Mr. Ned McGuire, Company Secretary, Depository Trust Company

Mr. Pratip Kar requested that PW obtain feedback from the Depository Trust Company (DTC) on the proposed regulations. Mr. Ned McGuire was unable to second a party to Bombay on such short notice, as noted above, but provided verbal comments by telephone to both SEBI and Ms. Slinn. Ms. Slinn incorporated Mr. McGuire's comments into her written recommendations provided to SEBI.

III. Trip of Mr. William Dentzer, Chairman of the Depository Trust Company (Retd)

In February 1996, Mr. Dentzer visited India under the FIRE Project and provided both Chairman Mehta of SEBI and Dr. Sarat Chandran, Joint Secretary of Finance, Ministry of Finance, comments on the proposed regulations. Mr. Dentzer then drafted a subsequent March 18, 1996 memorandum at Chairman Mehta's request commenting on the February 8, 1996 draft of the proposed regulations.

Mr. Dentzer's trip report, his memorandum to Chairman Mehta, and the version of the regulations he commented on are presented in Appendix C.

IV. Visit of Chairman Mehta and Pratip Kar to the Depository Trust Company and the US Securities and Exchange Commission, May 1996

PW arranged visits to DTC and the US SEC for Chairman Mehta and Mr. Pratip Kar during their visit to New York and Washington, DC in May 1996. At DTC, Chairman Mehta and Mr. Kar met with Mr. Thomas Williams, the current DTC Chairman, and at the SEC they met with Chairman Levitt and divisional heads. At both meetings, they were accompanied by Mr. J. Richard Breen, the PW Director of the FIRE Project.

During Chairman Mehta's visits to both the DTC and the SEC, the Chairman focused on the regulatory strategy for market institutions such as a depository. The executives of DTC, and the market regulation officials of the SEC, proposed to him that the preferred regulatory approach was to make the regulations consist of broad principles and retain the right to approve the depository's rules before they go into effect. This approach gives the various groups proposing depositories scope to come up with different approaches to the problems they face but retains leverage for the regulator to exert if an approach proposed is not considered acceptable. The Chairman and Mr. Kar requested advice on many key provisions of the proposed depository regulations and on each point received thoughtful recommendations based on the experience of the DTC and SEC professionals.

V. May 1996 SEBI Depository Australia/Asia Regional Study Tour

PW arranged a tour of the depositories of Australia, Singapore, Hong Kong, Malaysia, and Sri Lanka for three SEBI staff most instrumental in drafting the regulations, May 12 - 25, 1996. The purpose of the trip was for the SEBI officials to meet with the regulators, depository officials and exchanges in these countries to understand how the different depositories function and are regulated. Highlights from each of the countries include:

Australia

- Real time cross settlement;
- Service provider to the registrars;
- Dematerialization at the registrar; and

- The Clearing House Electronic Subregister System (CHESS) is an agent of the clearing house.

Singapore

- Custodians banks immobilize the share certificates.

Hong Kong

- Hong Kong operates a default fund.

Malaysia

- Dematerialization process is ongoing; and
- Restrict liability to participants.

Sri Lanka

- The exchange manages the depository.

APPENDIX A

**SECURITIES AND EXCHANGE BOARD OF INDIA
(DEPOSITORIES AND PARTICIPANTS) REGULATIONS, 1996**

THE GAZETTE OF INDIA

EXTRAORDINARY

PART II - SECTION 3 - SUB-SECTION (ii)

PUBLISHED BY AUTHORITY

NOTIFICATION

MUMBAI, THE DAY OF MAY, 1996

**SECURITIES AND EXCHANGE BOARD OF INDIA
(DEPOSITORIES AND PARTICIPANTS) REGULATIONS, 1996.**

F.NO.SEBI/LE/1742/96. In exercise of the powers conferred by section 30 of the Securities and Exchange Board of India Act, 1992 (15 of 1992) read with section 25 of the Depositories Ordinance, 1996 (17 of 1996), the Securities and Exchange Board of India hereby makes the following regulations, namely:-

CHAPTER I

PRELIMINARY

**Short title and
commencement**

1. (1) These regulations may be called the Securities and Exchange Board of India (Depositories and Participants) Regulations, 1996.

(2) They shall come into force on the date of their publication in the Official Gazette.

Definitions

2. (1) In these regulations, unless the context otherwise requires, -

(a) "Act" means the Securities and Exchange Board of India Act, 1992 (15 of 1992);

(b) "Depositories Ordinance" means the Depositories Ordinance, 1996 (17 of 1996);

(c) "enquiry officer" means any person authorised by the Board under regulation 66;

(d) "Form" means any of the forms specified in the First Schedule;

(e) "inspecting officer" means any person authorised by the Board under regulation 59;

(f) "Schedule" means any of the Schedules annexed to these regulations;

(g) "sponsor" means any person or persons who, acting alone or in combination with another person proposes to establish a depository and undertakes to perform the obligations of a sponsor under these regulations.

(2) Words and expressions used and not defined in these regulations but defined in the Act or in the Depositories Ordinance shall have the meanings respectively assigned to them in the Act or the Depositories Ordinance.

CHAPTER II
REGISTRATION OF DEPOSITORY

Application for grant of certificate of registration

3.(1) An application for the grant of a certificate of registration as a depository shall be made to the Board by the sponsor in Form A, shall be accompanied by the fee specified in Part A of the Second Schedule and be paid in the manner specified in Part B thereof.

(2) The application shall be accompanied by draft bye-laws of the depository that is proposed to be set up.

Application to conform to the requirements

4. An application in Form A which is not complete in all respects and does not conform to the instructions specified therein shall be rejected:

Provided that before rejecting any such application, the sponsor shall be given in writing an opportunity to remove, within thirty days of the date of communication in this regard, the objections indicated by the Board.

Provided further that the Board may, on being satisfied that it is necessary to extend the period specified in the first proviso, extend such period by such further time as it thinks necessary in order to enable the applicant to remove the objections indicated by the Board.

Furnishing of information, clarification and personal representation

5.(1) The Board may require the sponsor to furnish such further information or clarification regarding matters relevant to the activity of the depository for the purpose of consideration of the application.

(2) The sponsor or his authorised representative shall, if so required, appear before the Board for personal representation, in connection with the grant of certificate of registration.

Consideration of application for grant of certificate of registration

6. The Board shall not consider an application under regulation 3, unless the sponsor belongs to one of the following categories, namely:-

- (i) a public financial institution as defined in section 4A of the Companies Act, 1956 (1 of 1956);
- (ii) a bank included for the time being in the Second Schedule to the Reserve Bank of India Act, 1934 (2 of 1934);
- (iii) a foreign bank operating in India with the approval of the Reserve Bank of India;
- (iv) a recognised stock exchange within the meaning of clause (j) of section 2 of the Securities Contracts (Regulation) Act, 1956 (42 of 1956);
- (v) a body corporate engaged in providing financial services where not less than seventy five percent of the equity capital is held by any of the institutions mentioned in sub-clause (i), (ii), (iii) or (iv) jointly or severally;
- (vi) a body corporate constituted or recognised under any law for the time being in force in a foreign country for providing custodial, clearing or settlement services in the securities market and approved by the Central Government; or
- (vii) an institution engaged in providing financial services established outside India and approved by the Central Government.

Grant of certificate of registration

7. After considering the application under regulation 3, with reference to the qualifications specified in regulation 6, if the Board is satisfied that the company established by the sponsor is eligible to act as depository, it may grant a certificate of registration in Form B to the depository subject to the following, namely:-

- (a) the depository shall pay the registration fee specified in part A of the Second Schedule in the manner specified in Part B thereof, within fifteen days of receipt of intimation from the Board;
- (b) the depository shall comply with the provisions of the Act, the Depositories Ordinance, the bye-laws, agreements and these regulations;
- (c) the depository shall not carry on any activity other than that of a depository unless the activity is incidental to the activity of the depository;
- (d) the sponsor shall, at all times, hold atleast fifty one per cent of the equity capital of the depository and the balance of the equity capital of the depository shall be held by its participants;
- (e) no participant shall at any time, hold more than five per cent of the equity capital of the depository;
- (f) if any information previously submitted by the depository or the sponsor to the Board is found to be false or misleading in any material particular, or if there is any change in such information, the depository shall forthwith inform the Board in writing;
- (g) the depository shall redress the grievances of the participants and the beneficial owners within thirty days of the date of receipt of any complaint from

a participant or a beneficial owner and keep the Board informed about the number and the nature of redressals;

- (h) the depository shall make an application for commencement of business under regulation 14 within one year from the date of grant of certificate of registration under this regulation; and
- (i) the depository shall amend its bye-laws from time to time as may be directed by the Board.

Payment of annual fee

8. A depository who has been granted a certificate of registration under regulation 7, shall pay annual fee specified in Part A of the Second Schedule in the manner specified in Part B thereof.

Procedure where certificate of registration is not granted

9. (1) Where an application for the grant of certificate of registration under regulation 3 does not satisfy the requirements specified in regulation 7, the Board shall reject the application after giving the applicant an opportunity of being heard.

(2) The decision of the Board to reject the application shall be communicated to the applicant in writing within thirty days of such decision, stating therein the grounds on which the application has been rejected.

CHAPTER III
CERTIFICATE OF COMMENCEMENT OF BUSINESS

Application for grant of certificate of commencement of business

10. A depository which has been granted a certificate of registration under regulation 7, shall within one year from the date of issue of such certificate make an application to the Board for commencement of business in Form C.

Application to conform to the requirements

11. Any application in Form C which is not complete in all respects and does not conform to instructions specified therein shall be rejected:

Provided that before rejecting any such application, the applicant shall be given in writing an opportunity to remove within thirty days of the date of communication in this regard, the objections indicated by the Board.

Provided further that the Board may, on being satisfied that it is necessary to extend the period specified in the first proviso, extend such period by such further time as it thinks necessary in order to enable the applicant to remove the objections indicated by the Board.

Furnishing of information, clarification, and personal representation

12. (1) The Board may require the depository to furnish such further information or clarification regarding matters relevant for the grant of certificate of commencement of business.

(2) The depository or its authorised representative, if so required, shall appear before the Board for personal representation in connection with the grant of certificate of commencement of business.

Consideration of application for grant of certificate of commencement of business

13. (1) The Board shall take into account for considering grant of certificate of commencement of business, all matters which are relevant to the efficient and orderly functioning of the depository and in particular, the following, namely, whether:-

- (a) the depository has a net worth of not less than rupees one hundred crore;
- (b) the bye-laws of the depository have been approved by the Board;
- (c) the automatic data processing systems of the depository have been protected against unauthorised access, alteration, destruction, disclosure or dissemination of records and data;
- (d) the network through which continuous electronic means of communications are established between the depository, participants, issuers and issuers' agents is secure against unauthorised entry or access;
- (e) the depository has established standard transmission and encryption formats for electronic communications of data between the depository, participants, issuers and issuers' agents;
- (f) the physical or electronic access to the premises, facilities, automatic data processing systems, data storage sites and facilities including back up sites and facilities and to the electronic data communication network connecting the depository, participants, issuers and issuers' agents is controlled, monitored and recorded;
- (g) the depository has a detailed operations manual explaining all aspects of its functioning, including the interface and method of transmission of

- information between the depository, issuers, issuers' agents, participants and beneficial owners;
- (h) the depository has established adequate procedures and facilities to ensure that its records are protected against loss or destruction and arrangements have been made for maintaining back up facilities at a location different from that of the depository;
 - (i) the depository has made adequate arrangements including insurance for indemnifying the beneficial owners for any loss that may be caused to such beneficial owners by the wrongful act, negligence or default of the depository or its participants or of any employee of the depository or participant; and
 - (j) the grant of certificate of commencement of business is in the interest of investors in the securities market.

(2) The Board shall, before granting a certificate of commencement of business under this Chapter make a physical verification of the infrastructure facilities and systems established by the depository.

Grant of certificate of commencement of business

14. After considering the application under regulation 13 with reference to the matters specified in sub-regulation (1) of regulation 13 and making physical verification under sub-regulation (2) of that regulation, if the Board is satisfied that the depository is eligible to commence business as a depository, shall grant a certificate of commencement of business in Form D.

**Procedure where
certificate of
commencement of
business is not granted**

15. (1) If the Board, after considering the matters specified in sub-regulation (1) of regulation 13 and making physical verification under sub-regulation (2) of that regulation, is of the opinion that the depository shall not be granted a certificate of commencement of business, it may either-

- (a) direct the depository to conform to the matters specified in regulation 13; or
- (b) reject the application after giving the applicant an opportunity of being heard.

(2) The decision of the Board to reject the application shall be communicated to the depository in writing within thirty days of such decision, stating therein the grounds on which the application has been rejected.

CHAPTER IV
REGISTRATION OF PARTICIPANT

Application for grant of certificate of registration

16. (1) An application for the grant of a certificate of registration as a participant shall be made to the Board in Form E, through each depository in which the applicant proposes to act as a participant, shall be accompanied by the fee specified in Part A of the Second Schedule and be paid in the manner specified in Part B thereof.

(2) The depository shall forward to the Board the application in Form E as early as possible, but not later than thirty days along with its recommendations and certifying that the participant complies with the eligibility criteria including adequate infrastructure as provided for in these regulations and the bye-laws of the depository.

Application to conform to the requirements

17. An application in Form E, which is not complete in all respects and does not conform to the instructions specified therein, shall be rejected:

Provided that before rejecting any such application, the applicant shall be given in writing an opportunity to remove within thirty days of the date of communication in this regard, the objections indicated by the Board.

Provided further that the Board may, on being satisfied that it is necessary to extend the period specified in the first proviso, extend such period by such further time as it thinks necessary in order to enable the applicant to remove the objections indicated by the Board.

Furnishing information, clarification, and personal representation

18. (1) The Board may require the applicant, or the depository to which the applicant is to be admitted as a participant, to furnish such further information or clarification as may be considered necessary for the grant of a certificate of registration to the applicant.

(2) The applicant or his authorised representative shall, if so required, appear before the Board for personal representation in connection with the grant of a certificate of registration.

Consideration of application for grant of certificate of registration

19. For the purpose of grant of certificate of registration, the Board shall take into account all matters which are relevant to or relating to the efficient and orderly functioning of a participant and in particular, whether the applicant complies with the following requirements, namely:-

- (a) the applicant belongs to one of the following categories,-
 - (i) a public financial institution as defined in section 4A of the Companies Act, 1956 (1 of 1956);
 - (ii) a bank included for the time being in the Second Schedule to the Reserve Bank of India Act, 1934 (2 of 1934);
 - (iii) a foreign bank operating in India with the approval of the Reserve Bank of India;
 - (iv) a state financial corporation established under the provisions of section 3 of the State Financial Corporations Act, 1951 (63 of 1951);
 - (v) an institution engaged in providing financial services, promoted by any of the institutions mentioned in sub clause (i), (ii), (iii), (iv), jointly

or severally;

- (vi) a custodian of securities who has been granted a certificate of registration by the Board under sub-section (1A) of section 12 of the Act;
- (vii) a clearing corporation of a stock exchange;
- (viii) a stock broker who has been granted a certificate of registration by the Board under sub-section (1) of section 12 of the Act:

Provided that the stock-broker shall have a minimum net worth of rupees fifty lakhs and the aggregate value of the portfolio of securities of the beneficial owners held in dematerialised form in a depository through him shall not be more than twenty five times the net worth of the stock broker:

Provided further that if the stock broker seeks to act as a participant in more than one depository, he shall comply with the criteria specified in the first proviso separately for each such depository; or

- (ix) a non-banking finance company, having a net worth of not less than rupees fifty lakhs :

Provided that such company shall act as a participant only on behalf of itself and not on behalf of any other person.

- (b) the applicant is eligible to be admitted as a participant of the depository through which it has made the application to the Board;
- (c) the applicant has adequate infrastructure, systems, safeguards and trained staff to carry on activity as a participant; and

- (d) the grant of certificate of registration is in the interests of investors in the securities market.

Grant of certificate of registration

20. (1) After considering the application under regulation 16, with reference to the matters specified in regulation 19, if the Board is satisfied that the applicant is eligible for grant of certificate of registration, grant a certificate in Form F.

(2) The grant of certificate of registration in Form F shall be subject to the following, namely:-

- (a) the participant shall pay the registration fee specified in Part A of the Second Schedule in the manner specified in Part B thereof, within fifteen days of the receipt of intimation from the Board;
- (b) the participant shall comply with the provisions of the Act, Depositories Ordinance, the bye-laws, agreements and these regulations;
- (c) the depository through which an application for certificate of registration has been forwarded holds a certificate of commencement of business under regulation 14;
- (d) if any information previously submitted by the participant to the Board is found to be false or misleading in any material particular, or if there is any change in such information, the participant shall forthwith inform the Board in writing;
- (e) the participant shall redress the grievances of beneficial owners within thirty days of the date of the receipt of the complaint and keep the depository informed about the number and the nature of redressals; and

- (f) the participant shall pay annual fees specified in Part A of the Second Schedule in the manner specified in Part B thereof.

Period of validity of the certificate of registration

21. The certificate of registration issued under regulation 20, or renewed under regulation 22 shall be valid for a period of five years from the date of its issue or renewal, as the case may be.

Renewal of certificate of registration

22. (1) Three months before the expiry of the period of validity of a certificate of registration, the participant shall, if it so desires, make an application for renewal in Form E through the depository in which it is a participant.

(2) The application for renewal under sub-regulation (1) shall accompany the fee specified for issue of certificate of registration and shall be dealt with in the same manner as if it were a fresh application for grant of certificate of registration.

Conditions of renewal of certificate of registration

23. The Board may renew a certificate of registration granted to a participant subject to the conditions of certificate of registration specified in regulation 22.

Procedure where certificate of registration is not granted

24. (1) Where an application for the grant of certificate of registration under regulation 16 or for its renewal under regulation 22 does not satisfy the requirements specified in regulation 19, the Board shall reject the application after giving the applicant an opportunity of being heard,

23

(2) The decision of the Board to reject the application shall be communicated to the applicant in writing within thirty days of such decision, stating therein the grounds on which the application has been rejected.

**Effect of refusal to renew
a certificate of registration**

25. Any participant whose application for a certificate of registration as a participant has been rejected by the Board under regulation 24, shall from the date of expiry of the certificate of registration sought to be renewed, cease to carry on any activity as a participant:

Provided that the Board may, in the interest of the investors in the securities market permit the participant to carry on activities undertaken prior to the receipt of the intimation of refusal subject to such condition as the Board may specify.

CHAPTER V

RIGHTS AND OBLIGATIONS OF DEPOSITORIES, PARTICIPANTS, ISSUERS, MANNER OF SURRENDER OF CERTIFICATE OF SECURITY AND CREATION OF PLEDGE OR HYPOTHECATION

**Rights and obligations of
depositories, etc.**

26. The depositories, participants, issuers, and issuers' agents, in addition to the rights and obligations laid down in the Depositories Ordinance and the bye-laws shall have the rights and obligations arising from the agreements entered into by them.

**Depository to declare
specific securities eligible**

27. Every depository shall, in its bye-laws, state the specific securities which are eligible for being held in dematerialised form in the depository.

**Securities eligible for
dematerialisation**

28. The following securities shall be eligible for being held in dematerialised form in a depository :-

(a) shares, scrips, stocks, bonds, debentures, debenture stock or other marketable securities of a like nature in or of any incorporated company or other body corporate;

(b) units of mutual funds, rights under collective investment schemes and venture capital funds, commercial paper, certificates of deposit, securitised debt, money market instruments and unlisted securities shall also be similarly eligible for being held in dematerialised form in a depository.

**Agreement between
depository and issuer**

29. (1) Every depository shall enter into an agreement with the issuer in respect of securities that are to be declared as eligible to be held in dematerialised form.

(2) Where the issuer has appointed a Registrar to the Issue or Share Transfer Agent, who has been granted certificate of registration by the Board under sub-section (1) of section 12 of the Act, the depository shall enter into a tripartite agreement with the issuer and the Registrar to the Issue or Share Transfer Agent, as the case may be, in respect of the securities to be declared by the depository as eligible to be held in dematerialised form.

Systems and procedures

30. Every depository shall have systems and procedures which will enable it to co-ordinate with the issuer or its agent, and the participants, to reconcile the records of ownership of securities with the issuer or its agent, as the case may be, and with participants, on a daily basis.

Connectivity

31. Every depository shall maintain continuous electronic means of communication with all its participants, issuers or issuers' agents, as the case may be, clearing houses and clearing corporations of the stock exchanges and with other depositories.

**Transfer to be affected
only after payment**

32. The depository shall satisfy the Board that it has a mechanism in place to ensure that the interest of the persons buying and selling securities held in the depository are adequately protected and shall register the transfer of a security in the name of the transferee only after the depository is satisfied that payment for such transfer has been made.

Withdrawal by participant

33. Every depository shall allow any participant to withdraw or transfer its account, if the request for such withdrawal or transfer is in accordance with conditions stipulated therefor in the bye-laws of the depository.

Internal monitoring, review and evaluation of systems and controls

34. Every depository shall have adequate mechanisms for the purposes of reviewing, monitoring and evaluating the depository's controls, systems, procedures and safeguards.

External monitoring, review and evaluation of systems and controls

35. Every depository shall cause an inspection of its controls, systems, procedures and safeguards to be carried out annually and forward a copy of the report to the Board.

Insurance against risks

36. Every depository shall take adequate measures including insurance to protect the interests of the beneficial owners against risks likely to be incurred on account of its activities as a depository.

Manner of keeping records

37. Where records are kept electronically by the depository, it shall ensure that the integrity of the automatic data processing systems is maintained at all times and take all precautions necessary to ensure that the records are not lost, destroyed or tampered with and in the event of loss or destruction, ensure that sufficient back up of records is available at all times at a different place.

Records to be maintained

38. (1) Every depository shall maintain the following records and documents, namely:-

- (a) records of securities dematerialised and rematerialised;

- (b) the names of the transferor, transferee, and the dates of transfer of securities;
- (c) a register and an index of beneficial owners;
- (d) records of instructions received from and sent to participants, issuers, issuers' agents and beneficial owners;
- (e) records of approval, notice, entry and cancellation of pledge or hypothecation, as the case may be;
- (f) details of participants;
- (g) details of securities declared to be eligible for dematerialisation in the depository; and
- (h) such other records as may be specified by the Board for carrying on the activities as a depository.

(2) Every depository shall intimate the Board the place where the records and documents are maintained.

(3) Subject to the provisions of any other law, the depository shall preserve records and documents for a minimum period of five years.

Co-operation with other entities

39. Every depository shall extend all such co-operation to the beneficial owners, issuers, issuers' agents, custodians of securities, other depositories and clearing organizations as is necessary for the effective, prompt and accurate clearance and settlement of securities transactions and conduct of business.

Prohibition of Assignment

40. No depository shall assign or delegate to any other person its functions as a depository, without the prior approval of the Board.

Agreement by participant

41. Every participant shall enter into an agreement with a beneficial owner before acting as a participant on his behalf, in a manner specified by the depository in its bye-laws.

Separate Accounts

42. (1) Separate accounts shall be opened by every participant in the name of each of the beneficial owners and the securities of each beneficial owner shall be segregated, and shall not be mixed up with the securities of other beneficial owners or with the participant's own securities.

(2) A participant shall register the transfer of securities to or from a beneficial owner's account only on receipt of instructions from the beneficial owner and thereafter confirm the same to the beneficial owner in a manner as specified by the depository in its bye-laws.

(3) Every entry in the beneficial owner's account shall be supported by electronic instructions or any other mode of instruction received from the beneficial owner in accordance with the agreement with the beneficial owner.

Statement of accounts

43. Every participant shall provide statements of account to the beneficial owner in such form and in such manner and at such time as provided in the agreement with the beneficial owner.

Transfer or withdrawal by beneficial owner

44. Every participant shall allow a beneficial owner to withdraw or transfer from his account in such manner as specified in the agreement with the beneficial owner.

Connectivity

45. Every participant shall maintain continuous electronic means of communication with each depository in which it is a participant.

Monitoring, reviewing and evaluating internal systems and controls

46. Every participant shall have adequate mechanism for the purposes of reviewing, monitoring and evaluating the participant's internal accounting controls and systems.

Reconciliation

47. Every participant shall reconcile his records with every depository in which it is a participant, on a daily basis.

Returns

48. Every participant shall submit periodic returns to the Board and to every depository in which it is a participant in the format specified by the Board or the bye-laws of the depository, as the case may be.

Record of services

49. (1) Every participant shall maintain the following records and documents, namely:-

- (a) records of all the transactions entered into with a depository and with a beneficial owner;
- (b) details of securities dematerialised, rematerialised on behalf of beneficial owners with whom it has entered into an agreement;
- (c) records of instructions received from beneficial owners and statements of account provided to beneficial owners; and
- (d) records of approval, notice, entry and cancellation of pledge or hypothecation, as the case may be.

(2) Every participant shall make available for the inspection of the depository in which it is a participant all records referred to in sub-regulation (1).

(3) Every participant shall allow persons authorised by the depository in which it is a participant to enter its premises during normal office hours and inspect its records.

(4) Every participant shall intimate the Board the place where the records and documents are maintained.

(5) Subject to the provisions of any other law, the participant shall preserve records and documents for a minimum period of five years.

Manner of keeping records

50. Where records are kept electronically by the participant, it shall ensure that the integrity of the data processing systems is maintained at all times and take all precautions necessary to ensure that the records are not lost, destroyed or tampered with and in the event of loss or destruction, ensure that sufficient back up of records is available at all times at a different place.

Records to be maintained depository-wise

51. If a participant enters into an agreement with more than one depository, it shall maintain the records specified in regulation 49 separately in respect of each depository.

Prohibition of assignment

52. No participant shall assign or delegate its functions as participant to any other person, without the prior approval of the depository.

Agreement by issuer

53. Every issuer whose securities have been declared as eligible to be held in dematerialised form in a depository shall enter into an agreement with the depository in accordance with the provisions of regulation 29.

Manner of surrender of certificate of security

54.(1) Any beneficial owner, who has entered into an agreement with a participant, shall inform the participant of the details of the certificate of security which is to be dematerialised, and shall surrender such certificate to the participant:

Provided that where a beneficial owner has appointed a custodian of securities, then he may surrender the certificates of security to the participant through his custodian of securities.

(2) The participant shall, on receipt of information under sub-regulation (1), forward such details of the certificate of security to the depository and shall confirm to the depository that an agreement has been entered into between the participant and the beneficial owner.

(3) The participant shall maintain records indicating the names of beneficial owners of the securities surrendered, the number of securities and other details of the certificate of security received.

(4) The participant shall, furnish to the issuer details specified in sub-regulation (2) alongwith the certificate of security referred to in sub-regulation (1).

(5) The issuer shall on receipt of the certificate of security from the participant immediately mutilate and cancel it and substitute in its records the name of the depository as the registered owner and shall send a certificate to this effect to the depository and to every stock exchange where the security is listed.

(6) Immediately upon receipt of information from the issuer under sub-regulation (5), the depository shall enter in its records the name of the person who has surrendered the certificate of security as the beneficial owner, as well as the name of the participant from whom it has received intimation under sub-regulation (2), and shall send an intimation of the same to the participant.

(7) The issuer shall maintain a record of certificates of securities which have been dematerialised.

Reconciliation

55. The issuer or its agent shall reconcile the records of dematerialised securities with all the securities issued by the issuer, on a daily basis.

Connectivity

56. Every issuer or its agent shall establish continuous electronic means of communication with the depository with which it has entered into an agreement.

Information

57. Every issuer whose securities have been declared as eligible for dematerialisation in a depository shall give information to the depository about book closures, record dates, dates for the payment of interest or dividend, dates for annual general meetings and other meetings, dates for redemption of debentures, dates for conversion of

debentures and warrants, call money dates and such other information at the time and in the manner as may be specified by the depository in its bye-laws or agreement.

**Manner of creating pledge
or hypothecation**

58.(1) If a beneficial owner intends to create a pledge or hypothecation on a security owned by him, he shall make an application in this regard to the depository through the participant who has his account in respect of such security in the manner specified in sub-regulations (2) to (9).

(2) If the security intended to be pledged or hypothecated is unencumbered, the participant shall, after making a note in its records, of the notice of pledge or hypothecation, forward the application of the beneficial owner to the depository for its approval.

(3) On receipt of application of the beneficial owner through the participant, the depository shall make such investigation as it may consider necessary and if it approves the creation of the pledge or hypothecation, it shall enter the particulars of the intended pledge or hypothecation in its records and where he does so, intimate the participant who shall also amend its records accordingly and immediately intimate the beneficial owner.

(4) On receipt of the intimation under sub-regulation (3), the beneficial owner may create a pledge or hypothecation and where he does so, he shall intimate the depository through the participant of the creation of such pledge or hypothecation.

(5) The participant, on receipt of the intimation under sub-regulation (4), shall substitute for the notice of pledge or hypothecation in its records an entry of pledge or hypothecation as the case may be and shall inform the pledgee, beneficial owner and the depository.

(6) On receipt of the intimation under sub-regulation (5), the depository shall make in its records the changes referred to in sub-regulation (5).

(7) Where the depository disapproves the creation of the pledge or hypothecation it shall record the reasons for such disapproval and intimate the participant, who in turn shall inform the beneficial owner and the beneficial owner shall not create a pledge or hypothecation with respect of the securities.

(8) The entry of pledge made under sub-regulation (5) shall be cancelled by the participant when the beneficial owner redeems the pledge or hypothecation and makes a request, with the concurrence of the pledgee, to the participant to cancel the entry of pledge or hypothecation, and the participant shall inform the depository accordingly.

(9) On receipt of the intimation under sub-regulation (8), the depository shall make in its records the changes referred to in sub-regulation (8).

(10) No transfer of security in respect of which a notice of pledge or entry of pledge is in force, shall be affected by a participant without the concurrence of the pledgee.

(11) Where the pledgee satisfies the depository that owing to the default of the beneficial owner, the pledgee is entitled to be registered as beneficial owner of the pledged securities or a part thereof, the depository may, after giving the beneficial owner a reasonable opportunity to make such representation as he may wish to make, direct the participant to register the pledgee as beneficial owner of such securities and amend its own records accordingly.

(12) On receipt of the direction under sub regulation (9), the participant shall immediately carry necessary corrections in its records.

CHAPTER VI INSPECTION

Board's right to inspect

59. The Board may appoint one or more persons as inspecting officer to undertake inspection of the books of accounts, records, documents and infrastructure, systems and procedures, or to investigate the affairs of a depository, a participant, a beneficial owner, an issuer or its agent for any of the following purposes, namely:-

- (a) to ensure that the books of account are being maintained by the depository, participant, issuer or its agent in the manner specified in these regulations;
- (b) to look into the complaints received from the depositories, participants, issuers, issuers' agents, beneficial owners or any other person;
- (c) to ascertain whether the provisions of the Act, the Depositories Ordinance, the bye-laws, agreements and these regulations are being complied with by the depository, participant, beneficial owner, issuer or its agent;
- (d) to ascertain whether the systems, procedures and safeguards being followed by a depository, participant, beneficial owner, issuer or its agent are adequate;
- (e) to suo motu ensure that the affairs of a depository, participant, beneficial owner, issuer or its agent, are being conducted in a manner which are in the interest of the investors or the securities market.

**Notice before inspection
and investigation**

60. (1) Before ordering an inspection or investigation under regulation 59, the Board shall give not less than 10 days notice to the depository, participant, beneficial owner, issuer or its agent, as the case may be.

(2) Notwithstanding anything contained in sub-regulation (1), where the Board is satisfied that in the interest of the investors no such notice should be given, it may, by an order in writing direct that such inspection be taken up without such notice.

(3) During the course of an inspection or investigation, the depository, a participant, a beneficial owner, an issuer or its agent against whom the inspection or investigation is being carried out shall be bound to discharge his obligation as provided in regulation 61.

**Obligations on inspection
by the Board**

61. (1) It shall be the duty of the depository, a participant, a beneficial owner, an issuer or its agent whose affairs are being inspected or investigated, and of every director, officer and employee thereof, to produce to the inspecting officer such books, securities, accounts, records and other documents in its custody or control and furnish him with such statements and information relating to his activities as a depository, a participant, a beneficial owner, an issuer or its agent, as the inspecting officer may require, within such reasonable period as the inspecting officer may specify.

(2) The depository, a participant, a beneficial owner, an issuer or its agent shall allow the inspecting officer to have reasonable access to the premises occupied by him or by any other person on his behalf and also extend reasonable facility for examining any books, records, documents and computer data in the possession of the depository, a participant, a beneficial owner, an issuer or its agent or such other person and also provide copies of documents or other materials which, in the opinion of the inspecting officer are relevant for the purposes of the inspection.

(3) The inspecting officer, in the course of inspection of investigation, shall be entitled to examine or to record the statements of any director, officer or employee of the depository, a participant, a beneficial owner, an issuer or its agent.

(4) It shall be the duty of every director, officer or employee of the depository, a participant, a beneficial owner, an issuer or its agent to give to the inspecting officer all assistance in connection with the inspection, which the inspecting officer may reasonably require.

**Submission of Report to
the Board**

62. The inspecting officer shall, as soon as possible, on completion of the inspection or investigation as the case may be, submit a report to the Board:

Provided that if directed to do so by the Board, he may submit interim reports.

Communication of findings etc.

63. (1) The Board shall, after consideration of the inspection report or the investigation report referred to in regulation 62, communicate the findings of the inspecting officer to the depository, participant, issuer or its agent, as the case may be, and give him an opportunity of being heard.

(2) On receipt of the reply if any, from the depository, participant, issuer or its agent, as the case may be, the Board may call upon him to take such measures as the Board may deem fit in the interest of the securities market and for due compliance with the provisions of the Act, the Depositories Ordinance, regulations, the bye-laws and agreements.

CHAPTER VII
PROCEDURE FOR ACTION IN CASE OF DEFAULT

Suspension of certificate

64. The Board may suspend the certificate of registration granted to a depository or a participant, if such depository or participant:-

(a) contravenes any of the provisions of the Act, the Depositories Ordinance, the bye-laws, agreements and these regulations ;

(b) fails to furnish any information relating to its activity as a depository or participant as required under these regulations;

(c) does not furnish the information called for by the Board under clause (a) of sub-section (1) of section 18 of the Depositories Ordinance or furnishes information which is false or misleading in any material particular;

(d) does not co-operate in any inspection or investigation or enquiry conducted by the Board;

(e) fails to comply with any direction of the Board issued under section 18 of the Depositories Ordinance; or

(f) fails to pay the annual fee referred to in regulation 8.

Cancellation of certificate

65. The Board may cancel the certificate of registration granted to a depository or participant if such depository or participant

a) is guilty of fraud, or has been convicted of an offence involving moral turpitude; or

b) has been guilty of repeated defaults of the nature specified in regulation 64.

Explanation : In this regulation, "fraud" has the same meaning as is assigned to it in section 17 of the Indian Contract Act, 1872 (9 of 1872).

**Manner of making order
of cancellation or
suspension**

66.(1) No order of suspension or cancellation of certificate of registration shall be issued by the Board against a depository or a participant, except after holding an enquiry by an officer of the Board, authorised in this regard in accordance with the procedure specified in sub-regulations (2) to (8).

(2) For the purpose of holding an enquiry the Board may appoint one or more enquiry officer.

(3) The enquiry officer shall issue to the depository or the participant, as the case may be, a notice at its registered office or the principal place of its business, setting out the grounds on which action is proposed to be taken against him and calling upon him to show cause against such action within a period of fourteen days from the date of receipt of the notice.

(4) The depository or the participant, as the case may be, shall, within fourteen days from the date of receipt of such notice, furnish to the enquiry officer a written reply, together with copies of documentary or other evidence relied on by it or sought by the Board from the depository or participant, as the case may be.

(5) The enquiry officer shall give a reasonable opportunity of hearing to the depository or participant, as the case may be, to enable it to make submissions in support of its reply furnished under sub-regulation (4) of this regulation.



(6) Before the enquiry officer, the depository, a participant, or as the case may be, may either appear in person or through any person duly authorised by the depository or participant;

Provided that no lawyer or advocate shall be permitted to represent the depository or participant, as the case may be, at the enquiry;

Provided further that where a lawyer or an advocate has been appointed by the Board as a presenting officer under sub-regulation (7) it shall be lawful for the depository or participant, as the case may be, to present its case through a lawyer or advocate.

(7) The enquiry officer may, if he considers it necessary, ask the Board to appoint a presenting officer to present its case.

(8) The enquiry officer shall, after taking into account all relevant facts and submissions made by the depository or participant, as the case may be, submit a report to the Board and recommend the penal action, if any, to be taken against the depository or participant, as the case may be, as also the ground on which the proposed action is justified.

Show-cause notice and order

67. (1) On receipt of the report from the enquiry officer, the Board shall consider the same and issue to the depository or participant, as the case may be, a show-cause notice as to why the penal action as proposed by the enquiry office should not be taken against it.

(2) The depository or participant, as the case may be, shall, within fourteen days of the date of the receipt of show-cause notice, send a reply to the Board.

(3) The Board, after considering the reply of the depository or participant, as the case may be, if received within a period of fourteen days shall as soon as possible but not later than thirty days from the date of receipt of the reply or the date of hearing, if any, which ever is later, pass such order as it deems fit including an order for the suspension or cancellation of the certificate.

(4) Every order passed under sub-regulation (3) shall be self-contained and shall give reasons for the conclusions stated therein including the justification for the penalty if any, imposed by that order.

(5) The Board shall send to the depository or participant, as the case may be, a copy of the order made under sub-regulation (3).

**Effect of suspension and
cancellation of certificate**

68. (1) On and from the date of the suspension of the certificate, the depository or participant, as the case may be, shall cease to carry on any activity as a depository or as a participant, during the period of suspension, and shall be subject to the directions of the Board with regard to any records, documents or securities that may be in its custody or control, relating to its activities as depository or participant.

(2) On and from the date of cancellation of the certificate, the depository or participant shall, with immediate effect, cease to carry on any activity as a depository or participant, and shall be subject to the directions of the Board with regard to the transfer of any records, documents or securities that may be in its custody or control, relating to its activities as depository or participant.

Publication of order of suspension or cancellation

69. The order of suspension or cancellation of certificate of registration issued under sub-regulation (3) of regulation 67 shall be published by the Board in at least two daily newspapers.

[F.No.SEBI/LE/1742/96]

D.R.MEHTA

CHAIRMAN

Securities and Exchange Board of India

FIRST SCHEDULE - FORMS

FORM A

(see regulation 3)

**SECURITIES AND EXCHANGE BOARD OF INDIA
(DEPOSITORIES AND PARTICIPANTS) REGULATIONS, 1996.**

**APPLICATION FOR GRANT OF CERTIFICATE OF REGISTRATION AS
DEPOSITORY**

**SECURITIES AND EXCHANGE BOARD OF INDIA
MITTAL COURT, 'B' WING, 1st FLOOR
NARIMAN POINT, MUMBAI 400 021
INDIA**

INSTRUCTIONS:

- i. This form is meant for use by **each person** acting as the sponsor of a depository.
- ii. The applicant should complete this form, and submit it, along with all supporting documents to the Board at its head office at Mumbai.
- iii. This application form should be filled in accordance with the regulations.
- iv. Application for grant of certificate of registration as depository, will be considered provided it is complete in all respects.
- v. All answers must be typed.
- vi. Information which needs to be supplied in more detail may be given on separate sheets which should be attached to the application form.
- vii. The application must be signed and all signatures must be original.
- viii. The application must be accompanied by an **application fee** as specified the Second Schedule to these regulations and by the draft bye-laws.
- ix. Every page of the form and every additional sheet **must be initialled** by the authorised signatory of the applicant.
- x. All copies of documents should be **attested** as true by an authorised notary.

Items 1-6 pertain to an applicant acting as sponsor.

1. Name, address of the registered office, address for correspondence, telephone number(s), fax number(s), telex number(s) and the name of the contact person of the sponsor.
2. Please indicate the name of the depository which is to be sponsored by the applicant.
3. Please indicate the names of other depositories, if any, which have been sponsored by the applicant, or in which the applicant is acting as participant.
4. Please indicate the category to which the sponsor belongs as per regulation 6.
5. **Please provide the following details of each person acting as sponsor:**
 - (a) Date of incorporation or establishment, and the statute, if any, under which established (enclose certificate of incorporation, memorandum and articles of association or statutory provisions, if any).
 - (b) Objects of the applicant.
 - (c) Details the nature of activities carried on by the applicant.
 - (d) Details of affiliates and subsidiaries, and activities carried on by them.
 - (e) Details of registration with the Securities and Exchange Board of India, the Reserve Bank of India or with any foreign regulatory authority of the applicant, its affiliates and its subsidiaries (enclose documents supporting such registration).
 - (f) Networth of the applicant (enclose a copy of the latest audited financial statements).
 - (g) Percentage and amount of the paid up capital of the proposed depository which the applicant is to hold.

6. Declaration statement (to be given as below) by each person acting as sponsor.

We hereby agree and declare that the information supplied in the application, including the attachment sheets, is complete and true.

AND we further agree that, we will notify Securities and Exchange Board of India immediately any change in the information provided in the application.

We further agree that we shall comply with, and be bound by the Securities and Exchange Board of India Act, 1992, and Securities and Exchange Board of India (Depositories and Participants) Regulations, 1996, and such other guidelines/instructions which may be announced by the Securities and Exchange Board of India from time to time.

We further agree that as a condition of registration, we shall abide by such operational instructions/directives as may be issued by the Securities and Exchange Board of India from time to time.

For and on behalf of.....
(Name of the applicant)

Authorised signatory
(Name) (Signature)

Date:

Place:

Items 7-14 pertain to the depository, and should be filled in accordingly.

7. Name, address of the registered office, address for correspondence, telephone number(s), fax number(s), telex number(s) and the name of the contact person of the applicant.
8. Date of incorporation of the depository. (enclose certificate of incorporation and memorandum and articles of association)
 - (a) Objects (main and ancillary) of the depository.
 - (b) Authorised, issued subscribed and paid up capital of the depository.
 - (c) Proposed networth of the depository.
 - (d) Details of proposed shareholding of each person acting as sponsor.

9. The following details may be given for each director of the depository, and for its principal officer.
- (a) Name, age, nationality.
 - (b) Details of educational and other qualifications.
 - (c) Details of experience.
 - (d) Details of other directorships held.
 - (e) Details of any litigation connected with the securities market which has an adverse bearing on the business of the depository, involving the director or principal officer; and details of any conviction of the director or principle officer for a crime involving moral turpitude or of any economic offence for which the director or principle officer has been found guilty.
10. Please indicate the details of staff and organisation structure that is proposed to be set up prior to commencement of business.
11. Details of infrastructure such as premises and automatic data processing, storage and back up systems and procedures, communication systems that are proposed to be set up prior to commencement of business.
12. Internal evaluation and monitoring systems that are proposed to be set up prior to the commencement of business.
13. Arrangements for indemnification of beneficial owners that are proposed to be put in place, including details of insurance cover proposed to be taken prior to the commencement of business.
14. **Declaration statement (to be given as below).**

We hereby agree and declare that the information supplied in the application, including the attachment sheets, is complete and true.

AND we further agree that, we will notify Securities and Exchange Board of India immediately any change in the information provided in the application.

We further agree that we shall comply with, and be bound by the Securities and Exchange Board of India Act, 1992, and Securities and Exchange Board of India (Depositories and Participants) Regulations, 1996, and such other guidelines/instructions which may be announced by the Securities and Exchange Board of India from time to time.

We further agree that as a condition of registration, we shall abide by such operational instructions/directives as may be issued by the Securities and Exchange Board of India from time to time.

For and on behalf of.....
(Name of the applicant)

Authorised signatory
(Name) (Signature)

Date:

Place:

FORM B

(see regulation 7)

**SECURITIES AND EXCHANGE BOARD OF INDIA
(DEPOSITORIES AND PARTICIPANTS) REGULATIONS, 1996.**

CERTIFICATE OF REGISTRATION AS DEPOSITORY

- I. In exercise of the powers conferred by sub-section (1A) of section 12 of the Securities and Exchange Board of India Act, 1992, (15 of 1992) read with the regulations made thereunder and with the Depositories Ordinance, 1996 (17 of 1996) the Board hereby grants a certificate of registration to

as a Depository subject to the conditions specified in the Act, the Depositories Ordinance and the regulations made thereunder.

- II. Registration Number for the Depository is IN/SD/ / /

Date:

Place: Mumbai

By order

Sd/-

For and on behalf of
SECURITIES AND EXCHANGE BOARD OF INDIA

FORM C

(see regulation 10)

SECURITIES AND EXCHANGE BOARD OF INDIA
(DEPOSITORIES AND PARTICIPANTS) REGULATIONS, 1996.

APPLICATION FOR GRANT OF
CERTIFICATE OF COMMENCEMENT OF BUSINESS AS DEPOSITORY

SECURITIES AND EXCHANGE BOARD OF INDIA
MITTAL COURT, 'B' WING, 1st FLOOR
NARIMAN POINT, MUMBAI 400 021
INDIA

INSTRUCTIONS:

- i. This form is meant for use by a depository granted a certificate of registration by the Securities and Board of India.
- ii. The applicant should complete this form, and submit it, along with all supporting documents to the Board at its head office at Mumbai.
- iii. This application form should be filled in accordance with the regulations.
- iv. Application for grant of certificate of commencement of business will be considered provided it is complete in all respects.
- v. All answers must be typed.
- vi. Information which needs to be supplied in more detail may be given on separate sheets which should be attached to the application form.
- vii. The application must be signed and all signatures must be original.
- viii. Every page of the form and every additional sheet **must be initialled** by the authorised signatory of the applicant.
- ix. All copies of documents should be **attested** as true by an authorised notary.

1. Name and registration number of the applicant.
2. Date of grant of certificate of registration to the applicant.
3. Please indicate whether bye-laws have been approved by SEBI.
4. Please indicate the details of staff and organisation structure that has been set up.
5. Please indicate the background and experience of key personnel.
6. Internal evaluation and monitoring systems including details of background and experience of personnel involved that have been set up (enclose copies of risk management and operations manuals).
7. Please provide the following details of the automatic data processing and communications systems:
 - (a) details of hardware, software and communications systems, their capability, function and location;
 - (b) details of data storage and back up procedures and sites, their capability, function and location;
 - (c) details of disaster recovery systems and procedures.
8. Please indicate whether premises and automatic data processing and communications systems are owned, leased or rented (enclose copies of title, lease or rental agreements).
9. Please indicate arrangements that have been put in place in order to indemnify beneficial owners.
10. Please enclose copy of insurance cover that has been taken.
11. Please enclose a copy of the participation agreement to be entered into with different categories of participants.
12. Please enclose a copy of the agreement to be entered into with the issuer, or with the issuer and his registrar.
13. Please enclose a copy of the agreement to be entered into between the participant, as the depository's agent, and the beneficial owners.

14. **Declaration statement (to be given as below).**

We hereby agree and declare that the information supplied in the application, including the attachment sheets, is complete and true.

AND we further agree that, we will notify Securities and Exchange Board of India immediately any change in the information provided in the application.

We further agree that we shall comply with, and be bound by the Securities and Exchange Board of India Act, 1992, and Securities and Exchange Board of India (Depositories and Participants) Regulations, 1996, and such other guidelines/instructions which may be announced by the Securities and Exchange Board of India from time to time.

We further agree that as a condition of registration, we shall abide by such operational instructions/directives as may be issued by the Securities and Exchange Board of India from time to time.

For and on behalf of.....
(Name of the applicant)

Authorised signatory
(Name) (Signature)

Date: _____

Place:

FORM D

(see regulation 14)

**SECURITIES AND EXCHANGE BOARD OF INDIA
(DEPOSITORIES AND PARTICIPANTS) REGULATIONS, 1996.**

CERTIFICATE OF COMMENCEMENT OF BUSINESS AS DEPOSITORY

In exercise of the powers conferred by section 3 of the Depositories Ordinance, 1996 (17 of 1996) read with the regulations, the Board hereby grants a certificate of commencement of business to

as a depository subject to the conditions specified in the Act, the Depositories Ordinance and the regulations made thereunder.

Date:

Place: Mumbai

By order

Sd/-

For and on behalf of
SECURITIES AND EXCHANGE BOARD OF INDIA

FORM E

(see regulations 16)

SECURITIES AND EXCHANGE BOARD OF INDIA (DEPOSITORIES AND PARTICIPANTS) REGULATIONS, 1996.

APPLICATION FOR GRANT OF CERTIFICATE OF REGISTRATION AS PARTICIPANT

SECURITIES AND EXCHANGE BOARD OF INDIA
MITTAL COURT, 'B' WING, 1st FLOOR
NARIMAN POINT, MUMBAI 400 021
INDIA

INSTRUCTIONS:

- i. This form is meant for use by an applicant for grant of registration as participant.
- ii. The form should be filled in by the applicant and submitted to the depository in which it is acting as participant, who shall forward it, along with all supporting documents to the Board at its head office at Mumbai.
- iii. This application form should be filled in accordance with the regulations.
- iv. Application for grant of registration as participant or renewal of such registration, as the case may be, will be considered provided it is complete in all respects.
- v. All answers must be typed.
- vi. Information which needs to be supplied in more detail may be given on separate sheets which should be attached to the application form.
- vii. The application must be signed and all signatures must be original.
- viii. The application must be accompanied by an **application fee** as specified in the Second Schedule to these regulations.
- ix. Every page of the form and every additional sheet **must be initialled** by the authorised signatory of the applicant.
- x. All copies of documents should be **attested** as true by an authorised notary.

1. Name, address of the registered office, address for correspondence, telephone number(s), fax number(s), telex number(s) of the applicant and the name of the contact person.
2. Please indicate to which of the categories under sub-regulation (a) of regulation 19, the applicant belongs.
3.
 - (a) Date and place of incorporation or establishment and date of commencement of business (enclose certificate of incorporation, memorandum and articles of association or statutory provisions, if any).
 - (b) Details of the activities carried on by the applicant, in India or overseas.
 - (c) Details of affiliates and subsidiaries of the applicant operating in India, and activities carried on by them.
 - (d) Details of registration with the Securities and Exchange Board of India, the Reserve Bank of India or with any regulatory authority overseas of the applicant, and of its affiliates and subsidiaries operating in India.
 - (e) Date of commencement of business in India and overseas (please enclose copies of the Reserve Bank of India's permission, and if applicable copies of approvals from the Central Government to carry on activities mentioned above).
 - (f) Type and number of beneficial owners on whose behalf the applicant proposes to act as participant (Financial Institutions, Mutual Funds, Foreign Institutional Investors, Portfolio Managers, Non Banking Finance Companies, Stock Brokers, Corporates, Individuals, or for own account.)
4. Please give the name and SEBI registration number of the depository in which the applicant is to act as participant.
5. Please indicate the names and SEBI registration numbers of all other depositories in which the applicant is acting as participant and the applicant's SEBI registration number as participants in such depositories.
6. Please state whether the applicant, his partner, director or principal officer is involved in any litigation connected with the securities market which has an adverse bearing on the business of the applicant; or has at any time been convicted for any moral turpitude or at any time has been found guilty of any economic offence.
7. Please also state whether there has been any instance of violation or non-adherence to the securities laws, code of ethics/conduct, code of business rules, for which the applicant, or its parent or holding company or affiliate may have been subject to economic, or criminal, liability, or suspended from carrying out its operations, or the registration revoked temporarily.

8. Please indicate the net worth and paid up capital in Rs. Crore as per the latest audited financial statements of the applicant (enclose copy).
9. Please indicate services that the applicant is already providing to beneficial owners on whose behalf the applicant proposes to act as participant, and services proposed to be provided to beneficial owners.
10. Please provide the following details regarding staff involved in activities as participant.
 - (i) organisation structure;
 - (ii) experience and background of key personnel.
11. Please provide the following details regarding safekeeping and security systems and procedures:
 - (i) risk control and operations manuals (enclose copies);
 - (ii) give details of independent internal control mechanisms for monitoring, evaluation and review of accounting, and reporting systems and procedures.
12. Please provide the following details regarding automatic data processing systems and record keeping:
 - (i) details of hardware, software and communications systems, their capability, function and location;
 - (ii) details of data storage and back up procedures and sites, their capability, function and location;
 - (iii) details of disaster recovery systems and procedures.
13. Details of insurance cover to be taken up.
14. Please indicate the applicant's shareholding for each depository in which it has such shareholding and whether any shareholding is proposed to be acquired in the depository through which this application is being made.
15. Please enclose a copy of an undertaking from the depository in which the applicant is to act as participant that
 - (a) the applicant is eligible to act as participant in the depository through which this application is being submitted to SEBI, and meets with the eligibility criteria for participants specified in these regulations and in the depository's bye-laws;

- (b) the applicant has adequate automatic data processing systems, adequate and competent staff, risk management systems, procedures and manuals, disaster recovery procedures, secure data storage and off site back up facilities, adequate communications links and insurance; to enable the applicant to fulfil its obligations as participant to the satisfaction of the depository; and
- (c) the agreement to be entered into between the participant and beneficial owners has been submitted to the depository is in accordance with the depository's bye-laws.

16. Declaration statement (to be given as below).

We hereby agree and declare that the information supplied in the application, including the attachment sheets, is complete and true.

AND we further agree that, we will notify Securities and Exchange Board of India immediately any change in the information provided in the application.

We further agree that we shall comply with, and be bound by the Securities and Exchange Board of India Act, 1992, and Securities and Exchange Board of India (Depositories and Participants) Regulations, 1996, and such other guidelines/instructions which may be announced by the Securities and Exchange Board of India from time to time.

We further agree that as a condition of registration, we shall abide by such operational instructions/directives as may be issued by the Securities and Exchange Board of India from time to time.

For and on behalf of.....
 (Name of the applicant).....

Authorised signatory
 (Name) (Signature)

Date:
 Place:

59

FORM F

(see regulation 20)

**SECURITIES AND EXCHANGE BOARD OF INDIA
(DEPOSITORIES AND PARTICIPANTS) REGULATIONS, 1996.**

CERTIFICATE OF REGISTRATION AS PARTICIPANT

- I. In exercise of the powers conferred by sub-section (1A) of section 12 of the Securities and Exchange Board of India Act, 1992, (15 of 1992) read with the regulations made thereunder and with the Depositories Ordinance, 1996 (17 of 1996) the Board hereby grants a certificate of registration to

as a participant subject to the conditions specified in the Act, the Depositories Ordinance and the regulations made thereunder.

- II. Registration Number for the participant is IN/DP/ / /

- III. Unless renewed, the certificate of registration is valid from

_____ to _____ .

Date:

Place: Mumbai _____

By order
Sd/-
for and on behalf of

SECURITIES AND EXCHANGE BOARD OF INDIA

SECOND SCHEDULE

(see regulations 3, 7, 8, 16, 20)

SECURITIES AND EXCHANGE BOARD OF INDIA (DEPOSITORIES AND PARTICIPANTS) REGULATIONS, 1996.

PART A

APPLICATION FEES, REGISTRATION FEES AND ANNUAL FEES

Application fees payable by sponsor (Rs)	50,000
Application fees payable by participant (Rs)	5,000
Registration fees payable by depository (Rs)	25,00,000
Registration fees payable by participant (Rs)	1,00,000
Annual fees payable by depository (Rs)	10,00,000
Annual fees payable by participant (Rs)	1,000

PART B

Manner of Payment of Application, Registration and Annual Fees:

Fees to be paid by	Manner of payment
Sponsor or depository	A demand draft or bankers cheque payable to the "Securities and Exchange Board of India" at Mumbai.
Participant	Fees to be paid to the depository in which the payer is a Participant. The Depository shall forward the fees collected from participants to the Board, with a demand draft or bankers cheque payable to the "Securities and Exchange Board of India" at Mumbai.

APPENDIX B

- A. Ms. Jan Aalbrechtse Slinn's November 21, 1995
Memorandum to SEBI**
- B. Mr. John Ruckrich's Memorandum of November 17, 1995
on the Multi Depository Environment**
- C. Ms. Jan Aalbrechtse Slinn's November 24, 1995
Memorandum to SEBI**
- D. Ms. Jan Aalbrechtse Slinn's Trip Report for November 16 -
21, 1995**

Ms. Jan Aalbrechtse Slinn's comments regarding SEBI rules

Attachments

- 1. November 21 letter**
- 2. November 24 memorandum**

63

Ms. Jan Aalbregtse Slinn's November 21, 1995 Memorandum to SEBI

Price Waterhouse

FIRE Project



November 21, 1995

Mr. Pratip Kar
Senior Executive Director
Securities and Exchange Board of India
Mital Court, B-Wing
Nariman Point
Bombay - 400 021.

Dear Mr. Kar:

At your request, Ms. Jan Aalbrecht Slinn, Attorney at Law, Senior Manager, Price Waterhouse LLP, Washington, D.C. reviewed SEBI's release concerning proposed depository regulations, and discussed a number of matters with you and your staff at your offices, November 17-21, 1995.

Our principal comments are outlined in a memorandum attached to this letter. The statements that follow are based on our review of the release and discussions with you and your staff. In addition, you have furnished us with draft regulations, which we have not yet reviewed. Naturally, these regulations do not yet take into account the comments raised in the attached memorandum. Subsequently, we will provide technical comment on the draft regulations, and would be happy to review the next draft, which incorporates the comments.

- (1) In our view, the principles set forth in the release, as clarified by you and your staff, and subject to the matters raised in the attached memorandum, are acceptable.
- (2) We wish to state our strong concurrence with your approach to regulation that permits depositories to address all technical matters through their bylaws (including interfaces, communications, etc.), which you will then approve or disapprove. We note that this is similar to the approach taken by the U.S. SEC in regulating depositories and clearing corporations. It is inappropriate for a regulator to prepare model bylaws in this area or to set technical standards. Instead, SEBI regulations should require depositories to cover certain matters in their bylaws, such as procedures to assure efficient operation of the depository (including interfaces), procedures for handling pledges, etc.

65

November 2, 1995
Mr. Pratip Kar
Page 2



- (3) We note that neither the regulations nor the ordinance address the depository's ability to conduct comparison, clearance and payment functions. We understand that the silence entities, such as existing exchanges and clearance and settlement functions. This will be essential in order for India to achieve delivery vs. payment and to permit the industry to eliminate fragmentations in settlement. The industry will be required to address these issues, and SEBI can address these issues if needed at a later time.
- (4) We would like to highlight our concerns with the sections of the ordinance that impose liability on the depository for negligence of participants and through the principal/agent relationship. Further, as we discussed the multiple depository concept is likely to cause significant problems. We understand that SEBI regulations cannot address these issues, but note the need for SEBI to propose amendments to the ordinance to limit the circumstances in which a depository will be held liable and to participate in the standard-setting process so that multiple depositories will be as integrated as possible.

We will forward comments to you regarding the draft regulations within the week, and would be happy to provide further assistance as needed throughout this process by contacting Mr. Dennis Grubb, Chief of Party, PW/FIRE Project at 496 3566 (Direct), 496 3599 and fax 496 3555.

Sincerely yours,

W. DENNIS GRUBB
PRINCIPAL CONSULTANT CAPITAL MARKETS

Ms. Jan Aalbrektse Slinn's November 24, 1995 Memorandum to SEBI

**COMMENTS REGARDING
PROPOSED SEBI RULES
FOR
CENTRAL DEPOSITORIES**

By : Jan Aalbregtse Slinn

Date : November 24, 1995

Following are comments regarding the proposed rules, organized first by section of the rules, followed by general comments. I note that the draft of the rules that I reviewed was prepared prior to receipt of our comments regarding the SEBI release in our memorandum dated November 21, 1995. I have not undertaken to repeat all of the comments made in that memorandum.

- Item 7 The institution identified in Item 7(v) should be limited to financial institutions. The purpose of item 7(vii) is unclear. With respect to item 7(b), it may be unrealistic to expect entities that are just being formed to have their capital actually contributed at the initial stage wherein a certificate of registration is granted. Perhaps the rule should permit binding commitments to contribute the capital, but require the capital to be in place before a certificate of commencement of business is issued.
- Item 10 In tem 10(d), in what circumstances and to whom can a sponsor sell stock? Presumably, only to another sponsor or participant. This should be stated.
- Items 11 & 12 See comments in the November 21 memo regarding the two-part licensing process and registration renewals.
- Item 14 Is the cross reference in this section to Rule 91 intended to refer to Rule 87?
- Item 19 Add to 19(c) "including its interface with participants, issuers and other depositories". Item 19 should be expanded to require that adequate arrangements be in place (through participants' fund and/or insurance) to cover payment risk.
- Item 21 This section implies that the depository only recommends whether a participant should be accepted, but that SEBI decides. It should be clear that the application will be rejected if the depository does not approve the participant. In addition, there is no reason to require the depository to respond within a specified number of days, since it is entirely up to the depository whether to bring in the participant or not.
- Item 25 Will mutual funds be participants? Also, the distinction between sponsors and participants is not clear to me. I presume sponsors are shareholders who are not permitted to be participants. If this is the case, then clearing agencies

68

(including foreign clearing corporations and depositories) must be permitted to be participants. It may be easiest simply to say that a sponsor is also permitted to be a participant.

- Item 26(2)(c) The participant must agree to comply with conditions. At the time registration is granted, it will not have been possible to comply with them.
- Item 28(c) The Board will not want to be informed about every little complaint, but would do better to require that a record be kept of all complaints subject to inspection by the Board or the depository.
- Item 34(1) It would be better to state that, before a class of securities may be declared eligible, there must be an appropriate agreement with the issuer.
- Item 35 The rules should make clear that a depository can decide which of its agents can maintain subaccounts as its agent. This section implies that it must enter into an agreement with each of them.
- Item 36 This section should make clear that the register represents the shares held by the depository as registered owner and is not the complete registry.
- Item 38 Depositories must establish connectivity with clearing houses that are its participants, not all clearing houses.
- Item 39 This section should make clear that the participant registers the name of the transferee in its subaccounts. As presently written, this section continues the confusion of the ordinance, wherein it is implied that the depository itself makes a record of every transfer by a transferee. Also, transfers will occur on receipt of instructions from a clearing house.
- Item 40(2) I do not understand why SEBI would be notified of transfers by participants.
- Item 41 The internal audit must include an assessment of automated data processing.
- Item 42 The expert should also do a risk assessment.
- Item 44 This section should make clear that coverage can be provided through a participants' fund, increased capital or insurance.
- Item 50(2) It should be clear that transfers may also be made by instruction of a clearing house that is designated as the agent of the participant without further instruction from the participant.
- Item 63 This section implies that certificates are surrendered to the depository for transfer into its name. I was under the impression that the certificate holder presented the certificate to the issuer for transfer into the depository's name,

and that the depository was not involved in this process. This is important because of title issues and because of the need for physical handling of certificates if the depository were involved.

- Item 64 Reconciliation is between the issuer and the depository to assure the dematerialized shares equal the number registered in the depository's name.
- Item 65 It would probably be a good idea to make clear that this means beneficial owners as reflected in the records of the depository or a participant (since, as discussed in the November 21 memo there could be sub-sub account holders who are beneficial owners in the broader sense of the term). This section should make clear the depository's and participants' obligations to provide the list of owners.
- Item 69 The rules should state that a depository may not declare a type of securities to be eligible until the depository demonstrates its ability to process those securities.
- Item 70 Again, the issue is raised whether the depository and its participants will be handling stock certificates. Item 70(3) is incorrect, as the depository enters the name of the participant, and the participant enters the name of the person who surrendered the security.
- Item 71 I suggest that Items (1) and (2) be deleted and that this section requires that a depository's bylaws set up the method of effecting a pledge and release of pledge.
- Items 80/81 It is confusing how these two sections interrelate, because 81(a) repeats part of 80(b). It should be clear that the remedies specified in Item 81 are in addition to SEBI's remedies under Item 80. Certainly, suspension of a license is an extreme remedy. Some of the actions for which suspension is permitted are minor, unless repeated (e.g. failure to transfer securities). This highlights the need for SEBI to have the power not only to suspend or revoke a license but also, as permitted by law, to impose place conditions on a depository operations, impose lines and suspend officers and directors (especially if they are guilty of fraud, etc.) of a depository. The ability to impose fines would give SEBI a more suitable remedy for minor violations as suspension will be considered only in the most egregious circumstances.
- Item 81(c) should read false or misleading.
- Item 82 In India, can a corporation be convicted of an offence involving moral turpitude?

General Comments

1. The depository's ability to revoke or suspend a participant's membership must be clear.
2. I recommend an undertaking to comply with any standards set in the future for interfaces.
3. The rules should list the required reports to be filed with SEBI.
4. The procedures for bylaws should be specified.
5. A depository should be required to give SEBI notice of default of a participant, as well as disputes and discrepancies in excess of a specified threshold.
6. The depository should be required to submit, in addition to its annual audited financials, quarterly and monthly unaudited financials.
7. In addition to requirements to follow any standards that SEBI may establish for interfaces, depositories should be required to submit to SEBI for approval proposed arrangements for interfaces among depositories.

**RESPONSIBILITY OF DEPOSITORY
FOR
ACTIONS OF PARTICIPANTS**

NOVEMBER 21, 1995

As an introductory note, in determining the extent of responsibility a depository will have for actions of participants it is important to focus on the persons to be protected and the actions against which they require protection. This may enable policy makers to establish an appropriate balance between protection of such persons and the need to limit the depository's exposure to risks which could cause its failure. For this reason the following lists outline some of the actions for which a depository may be held responsible and suggest limits on responsibility. These lists should not be considered exhaustive.

Examples of Actions by a Participant for Which Depository Might be Responsible If They Result in a Loss to a Client Due to Negligence¹

Incorrect debiting or crediting of securities (clerical errors)

Transfer of securities without proper instruction from a client.

Failure to enter timely transfer with the depository or in subaccounts

Failure to create or release a pledge

Failure to record an allotment in a subaccount

Failure to notify the issuer upon receipt of a request for transfer of beneficial ownership into certificated form

Destruction of records

Commingling of accounts; creation of liens by creditors

Failure to furnish statements of accounts

Failure to reconcile accounts with the issuer

Recommended Limitations on Responsibility of a Depository

Consideration should be given to protecting nonparticipant holders only, as well as to limiting the aggregate liability of the depository for a particular loss. The first limitation would negate the liability for transactions that take place between participants. The latter limitation follows the approach taken by certain banking insurance schemes, which protect deposit accounts only up to a certain amount.

¹By noting these actions, I do not suggest that the depository should be held responsible for the actions.

Neither the depository nor its participants should be responsible for determining legal or other requirements to be complied with regarding securities held in accounts.

There should be no responsibility for failure to provide services due to forces of nature, sabotage or other causes beyond the reasonable control of the depository.

The depository should be responsible for actual damages only, not "incidental or consequential damages" or their equivalent under Indian law.

Losses resulting from the payment process, e.g., failure to pay, should not be covered, unless payment is handled by the depository.

The depository should not be responsible for errors made by clearing corporation participants in instructions to the depository or for other actions of a clearing corporation.

Due to the principal/agent relationship, the depository might be held responsible for gross negligence, fraud or theft of participants. The depository should not be required to take on this responsibility. I suggest that responsibility due to the principal/agent relationship be limited to acts that the participant is permitted to conduct on behalf of the depository as outlined in the bylaws, and not those contrary to its authority as agent.

The depository should not be responsible for actions by participants that are unrelated to the depository's activities.

The depository should not be responsible for actions in connection with loans made by a participant and related pledge agreements.

**Mr. John Ruckrich's Memorandum of November 17, 1995
on the Multi Depository Environment**

To : Jan Aalbrechtse - Price Waterhouse
From : John Ruckrich - Price Waterhouse
Subject : Model Depository Interface for Competing Depositories in the Indian Environment
Date : November 17, 1995

Executive Overview

It is Price Waterhouse's recommendation that the multiple depository environment not be permitted to evolve without an agreement to the definition and subsequent rules basic to the Indian multiple depository environment. Besides achieving adherence to the principle of encouraging the competitive environment the multiple depository environment should be constructed in such a manner as to fulfill what should be its primary objective and that is to serve the capital markets in achieving an efficient infrastructure in the settlement of securities transactions while minimizing the settlement risk. To accomplish this the financial institutions involved in the settlement of securities transactions must accept certain standards which will permit securities involved in the settlement process to flow throughout India without prejudice. It is with this objective in mind that the following blueprint is offered as input to the SEBI regulations for depositories.

It is unnecessary to designate one of the depositories as the central depository in the traditional meaning. What is important is to establish interface standards for the depositories which permit a participant in one depository to settle the share portion of security transactions with a participant in another depository. This would not preclude a financial institution from belonging to more than one depository but rather negates the requirement that buyer and seller must be participants in the same depository.

Background

As an assist to understanding the following blueprint, a background scenario is offered. A trade is executed on a stock exchange. The two parties to the trade are brokers executing orders which they have received from their clients. The clients are each financial institutions who are members of depositories other than their respective brokers. The brokers both belong to the same depository. The following events should occur if the trade is to be settled to everyone's satisfaction.

1. The clearing corporation establishes the terms and conditions of the trade and notifies both the buying and selling broker of their settlement obligation.
2. Both brokers submit confirmations to their clients, the financial institutions, to make them aware of their settlement obligations.
3. On settlement day the following transactions take place.

Share Settlement

- (a) The selling broker's client delivers the shares to the selling broker via the inter-depository interface.
- (b) The selling broker re-delivers the shares to the buying broker.
- (c) The buying broker re-delivers the shares to his client via the inter-depository interface.

Money Settlement

- (a) The buying client must provide his broker with good funds per the instructions on the confirmation.
- (b) The buying and selling brokers settle their payment obligations with the clearing corporation aligned with the stock exchange upon which the trade was executed.
- (c) The selling broker must provide his client with the funds due him per the instructions on the confirmation.

Note: Money settlement between broker and client is outside the depository environment unless the broker and client are both members of the same depository. This leaves the client side of the trade outside the Delivery versus Payment standard for institutional trades achieved in most modern capital markets. This will remain the case until SEBI and the depositories determine that the inter-depository interface can handle the additional risk and complexity of security movements between depositories for value rather than for free as proposed here. Practically speaking, given the value of most institutional trades, brokers will probably have no choice but to join multiple depositories or subscribe to a service provider who will function on their behalf.

Blueprint for the Indian Multiple Depository Environment

While it is clear as to the functioning of the depository in the securities settlement process, it is not as clear how the mechanics of settlement would proceed when the securities required to complete the settlement reside in a depository different than the one where the settlement is to take place. The following are the basic agreements required to achieve such settlement in the most efficient manner.

1. It is the seller's obligation to deliver the securities to the buyer in the depository of the buyer's choosing. This will normally be the depository as designated by the clearing corporation processing the trade settlement.

2. All depositories must become members of all other depositories. All fees should be waived except for fees involving physical security movement. It is not envisioned that physical activity will be involved.
3. All deliveries of securities between depositories will require that all depositories establish electronic interfaces with all other depositories. All relevant settlement data including but not limited to the seller's identity must be included as part of the interface transmission record.
4. All deliveries of securities in settlement of securities transactions will be for free. No money will be moved between the depositories. The liability between depositories is then restricted to the safekeeping function basic and common to all depositories. The Delivery versus Payment function will take place in the manner defined by the clearing corporation or agent and the receiving depository.
5. The delivery of a security movement between depositories is treated as a non-physical deposit into the receiving depository's inventory for credit to the receiving participant account.
6. The reconciliation of holdings of each depository accounted for in another depository must be done on a daily basis. No disagreement should be permitted to go beyond a certain number of days before an arbitration process is initiated.
7. A depository should have a special transaction reserved for its use which would cause another depository to transfer the initiating depository's holdings into its nominee name on the records of the relevant registrar. The purpose of this transaction is to permit a depository to reduce the amount of its securities held in a nominee name other than its own. This transaction can also be thought of as a risk reduction/efficiency mechanism because through the prudent use of this transaction it is possible to reduce one's dependence on another depository for fulfilling corporate action obligations in an untimely fashion. It is also the transaction that would be used if a depository were to elect to withdraw from the business.
8. All depositories must maintain perfect synchronization of depository eligible securities. Without adherence to this principle, security movements could be rejected at the receiving depository's causing a settlement failure. To protect against this mis-processing of a security movement from one depository to another, the receiving depository must edit all movements into its account at the sending depository to make certain that the security movement can continue its natural movement into the account of the buyer.
9. All depositories must work with the same corporate action diary. That is to say that all depositories must pay dividends on the same day, pay bonus shares on the same day using the same rules, process tender offers the same way, etc.

Recommendations and Conclusions

The need for a standardized interface between depositories should be more clearly perceived by now. This standardized interface involves the setting of standards for transaction processing both content and timing. It means agreement on corporate action information and processing procedures. It means standards for interfacing with registrars. It means rules for processing partial calls. This is not intended to be the complete list of required standards but is intended to be the call for a standardized set of rules and procedures which all depositories in India are legally bound to follow. The standards should be broadly outlined by SEBI along with the requirement for a standards committee comprised of members of all the depositories and SEBI. SEBI should consider the possibility of chairing the committee. It is recognized that by following the recommendations for standards and their enforcement competition between depositories may be curbed. However, the benefit should exceed any detriment to the spirit of competition.

Ms. Jan Aalbrechtse Slinn's Trip Report for November 16 - 21, 1995

**TRIP REPORT
USAID/INDIA
FINANCIAL INSTITUTIONS REFORM AND
EXPANSION (FIRE) PROJECT**

CONSULTANT : **MS. JAN AALBREGTSE**

COMPANY : **PRICE WATERHOUSE LLP**

DATE OF TRIP : **NOVEMBER 16 - 21, 1995**

TASK ORDER : **NO. 004, SECURITIES AND EXCHANGE
BOARD OF INDIA**

TASK ORDER ACTIVITY : **DEPOSITORY REGULATION**

CONTRACT NUMBER : **386-0531-C-00-5010-00**

PROJECT NUMBER : **386-0531-3-30069**

**Price Waterhouse LLP
1616 North Fort Meyer Drive
Arlington, VA 22209
Tel : (703) 741-1000
Fax: (703) 741-1616**

MEMORANDUM

Subject: Trip Report
Date: November 21, 1995
By: Jan Aalbregtse

ACTIVITIES:

I arrived in India on November 16, 1995 with the objective to meet with SEBI to discuss proposed regulations regarding depositories.

PW/FIRE advises SEBI on a variety of regulatory issues and requested specific assistance on reviewing the proposed regulations to be issued on October 31, 1995. PW/FIRE compelled SEBI to wait until PW could provide a consultant on site. Prior to my arrival I had reviewed the SEBI public release (dated 17 October 1995) which is a consultative paper related to this subject, and provided comments which were faxed to SEBI through the PW/FIRE office.

Upon arrival I met with SCHIL (Stock Holding Corporation of India) to discuss its views regarding the release. PW/FIRE provides technical assistance to SCHIL through John Ruckrich. John is currently assisting SHCIL on vendor selection for depository software. SHCIL provided background of their response to the consultative paper.

I then met extensively and exclusively with SEBI officials (Mr. Pratip Kar, Executive Director and Mr. Nimal Muru responsible for drafting the SEBI regulations) to review the comments and address their concerns. Mr. Dennis Grubb, Chief of Party, PW/FIRE assisted in the meetings. I prepared a confidential memorandum outlining the issues, as well as a transmittal letter dated November 22 to SEBI. Throughout the process I was in contact with Mr. Ruckrich, who provided his views and prepared a memorandum outlining issues related to the multiple depository environment.

In addition, I was in contact with Mr. Ned McGuire, Company Secretary of DTC for his comments. PW/FIRE had arranged with DTC to provide comments by telephone since they could not second a party to Bombay on short notice.

In respect to the concern that the depository meet USSEC 17(f) 5 regulations, currently under revision, I spoke to the SEC and was informed the amendments have been delayed; however, likely in January and the provision for no action letters on multiple depositories will likely be eliminated.

On Tuesday, 21 November Mr. Kar provided me with a copy of the drafted regulations on a Confidential basis, I will review the document on my trip to Moldova and fax my comments to PW/FIRE for transmittal to SEBI. In addition, I will return the regulations by courier, as agreed with Mr. Kar to protect the security of the document. (Submitted and amended by WDG).

APPENDIX C

- A. Mr. William Dentzer's March 18, 1996 Memorandum to Chairman Mehta**
- B. Mr. William Dentzer's Trip Report for February 11 - 16, 1996**
- C. February 8, 1996 Draft of the SEBI Depositories and Participants Regulations**

82

Mr. William Dentzer's March 18, 1996 Memorandum to Chairman Mehta

83



Price Waterhouse LLP
**Financial Institutions Reform
and Expansion (FIRE) Project**

April 8, 1996

Mr. D. R. Mehta
Chairman
Securities and Exchange Board of India
Mittal Court, 'B' Wing
224, Nariman Point
Bombay - 400 021

Dear Mr. Mehta,

**Sub: Memorandum from Mr. William T. Dentzer, Jr.
Founder Chairman and Chief Executive Officer (Retd) -
Depository Trust Company**

The attached memorandum was prepared at your request by Mr. Bill Dentzer. The memorandum dated March 18, 1996 was delivered to my Office on Thursday last and I am forwarding it to you immediately.

As part of your planned trip to New York and Washington August 29 through May 3, 1996, we are making arrangements for a visit to the Depository Trust Company. Mr. Dentzer will contact the current Chairman, CEO and President to ensure the DTC officials address the questions and concerns particularly to the planned Indian Depository.

I will forward a suggested itinerary and meeting schedule for your New York/Washington trip on Tuesday, April 9, 1996.

Sincerely yours,

W. DENNIS GRUBB
Principal Consultant Capital Markets

Enclosures

n.o.o.

cc: Mr. Ashok Jha, PRO - USAID - New Delhi (Along with enclosures)
cc: Dr. U. Sarat Chandran - Ministry of Finance, New Delhi. (Along with enclosures)

84

March 18, 1996

MEMORANDUM FOR: D.R. Mehta, Chairman, Securities and Exchange Board of India

FROM: William T. Dentzer, Jr.

Mr. Chairman, this responds to your request at our February 15 meeting for any comments I might wish to make on SEBI's February 8 draft notice of regulations affecting depositories and participants. My travel schedule has delayed my response until now. My comments may be found below.

Depository Responsibility for Acts of a Participant

Following a key provision of the Presidential Ordinance, the regulations (page 9) require the depository to arrange "...for indemnifying the beneficial owners for any loss that may be caused to such owners by the wrongful act, negligence, or default of... its participants or any employee of...(a) participant." To mitigate the effect of this draconian burden on the depository, later regulation (page 20) requires every participant to indemnify beneficial owners for these same acts. This step does not go far enough in protecting the depository, suggesting only that the primary responsibility rests with the participant, not the depository. There will be countless acts of real or imagined negligence by participants as perceived by beneficial owners of which the depository will have no knowledge, but which the depository's staff will have to investigate in self-defense, and for which it may have to bear unwarranted financial liability. There will be cases where the assets of the participant will not be adequate to cover the loss of a beneficial owner. This potentially killing burden on the depository should eventually be eliminated by supplemental legislation, and in the meantime interpreted as narrowly as possible with the help of SEBI regulations.

One such narrow interpretation would be to give the depository, as well as the participant and the transfer agent/registrar, some responsibility for ensuring that the participant's records reflect the beneficial ownership records that the participant has supplied to the depository. Since the depository only knows what the participant tells it, such a provision would do little, but would give some reassurance that the participant's records would continue to accurately reflect the beneficial ownership of dematerialized securities.

The Ordinance states: "A depository shall enter into an agreement with one of more participants as its agent." Another way to narrow the sweep of the indemnification language might be to limit the agency function mentioned in the Ordinance solely to the obligation of the participant to supply to beneficial owners each owner's dematerialized security position in the depository as of the end of each calendar quarter. In any event, the agency functions performed by participants for the presumed principal, the depository, should be narrowly defined and preferably by SEBI regulations.

Flow of Certificates and Information to and from Issuers and Agents

From DTC's experience, I believe this promises to be the most problem-prone aspect of the Indian depository system since despite the depository's best efforts, the performance of the issuer and its agents is outside the depository's control. Speedy and accurate communication between a depository and issuer/agent is essential with respect to dematerialized/rematerialized security positions and securities. While SEBI has sought to

encourage this by requiring "continuous electronic means of communication with all (of a depository's) participants, issuers, or issuers's agents", many agents will not initially have such means and others who have those means will not use them as speedily as they should.

The Ordinance has made matters even worse. Because of a depository's liability for acts of its participants, the National Securities Depository Limited (NSDL) plans to have certificates presented to participants for depository transactions be sent by those participants to issuers/agents rather than have participants present certificates to the depository for initial review and shipment to issuers/agents. At DTC, after countless arguments with issuers/agents about their slow performance, DTC built a tightly-controlled system for shipping certificates to the agents that removed all arguments about how many certificates were sent there and when they arrived. DTC could do centrally what each of its 500 plus Participants could not do individually for themselves by directly communicating with the agents. Moreover, DTC could record the quality and time of performance of all agents against a single standard and report that performance to the SEC, their regulator. The Ordinance for the foreseeable future has removed the best weapon a depository and SEBI have to monitor issuer/agent performance accurately.

Because the weakness of issuer/agent performance will hurt the performance of the depository and its reputation, SEBI should attempt to compensate by regulation and examination of issuer/agents. I believe SEBI should prescribe a minimum number of business days within which an issuer/agent should advise a depository of a dematerialized security position's establishment on the issuer/agent's books, counting from the date the certificates were received by the issuer/agent. The number of business days should be reasonable but as small as possible. The time period for issuance of rematerialized securities can be longer since speed is not necessary there.

The certificate distinctive number system no longer serves a purpose and certainly has no relevance to a depository system. I hope it can be kept from having any effect there.

Capital Adequacy of a Depository

The regulations (page 6) require a depository to maintain a minimum net worth of 100 crores of rupees (currently about \$34 million), and the depository sponsor or sponsors to hold at least 51% of the depository's equity capital. I understand the reasons for these provisions. Further, no Participant may hold more than 5% of the depository's equity capital. I can imagine a time when a clearing corporation as a participant might properly be allowed to hold more than 5% based on its usage of the depository, but that should not be a problem in the near future.

Depository Redress of Grievances

A depository is required to "...redress the grievances of the participant and the beneficial owners within one month of the date of receipt of any complaint from a participant or a beneficial holder..." (page 6). If "redress the grievances" here means "substantively address and send a response to", I have no problems. It is the inclusion of the beneficial holder in this communications loop that could create problems for the depository since it may have to reconcile different statements of fact from beneficial owners, participants, and issuer/agents before guessing at the truth and redressing grievances. This will tend to prolong the depository's response time.

Separate Accounts for Beneficial Owners

The draft states (page 20): "Separate accounts shall be opened by every participant in the name of each of the beneficial owner (sic) and the securities of each beneficial owner shall be segregated, and shall not be commingled with those of other beneficial owner or with the participant's own securities." The intent of this provision is correct, but I believe the language needs improvement. In a depository, whether actual securities are dematerialized or immobilized, the beneficial owner has a "position" in that security on the books of its participant; in India, the owner will also have a position on the books of the depository in relation to its participant. Certificates identifiable to the beneficial owner do not exist; what exists are book positions. Depending how the issuer/agent keeps its books, beneficial owners' positions may be considered "commingled" at many times within a total position for the depository in a given scrip on a given day on a given issuer/agents' books. Indeed, I think it would be more economical for the issuer/agent to have just a total daily scrip position for the depository on its books and to seek beneficial ownership information from the depository from time to time when it is required.

Participant Account Statement to Beneficial Owners

The regulations provide (page 20) that participants shall provide statements of account to beneficial owners in accordance with their agreements with beneficial owners, but it does not specify the frequency of such statements. These agreements will be written by participants, and some definition of frequency is desirable. These statements should be rendered at least quarterly, if not monthly.

Registration of a Participant in a Depository

The draft regulations provide (page 11) that a party must apply to SEBI for registration as a participant in a depository, even though the type of organizations which are eligible to become depository participants is separately specified. This seems unnecessary and susceptible to time-consuming delays. The depository has good reason to reject undesirable participants, and the regulations separately require the depository to justify such rejections. This in turn raises the question of regulatory style. As you know, the U.S. style is often to set standards, rather than to forsee the dotting of every letter "i", and to require the regulated entity to justify that its decision meets a given standard. You may wish to consider the utility of such an approach on other matters where the precise form of future developments cannot now be forseen, and to concentrate regulatory oversight and staff resources on truly important matters.

Stock-broker Qualification to be a Depository Participant

Among other qualifications for continued registration as a depository participant, the draft regulations state that a stock-broker should not hold dematerialized scrip for beneficial owners with a value in excess of 25 times the net worth of the stock-broker (page 13). While there may be reasons for such a limitation in India, it would be unjustified in the U.S. and most other countries. The dematerialized securities (scrip) positions for beneficial owners established for them on the books of the depository and the stock-broker represent no claim on the financial resources of the stock-broker so long as they represent paid-for long positions and not trade positions awaiting settlement. The usual capital-to-asset test here is not appropriate.

This is not the end of the matter, however. With dematerialization, a stock-broker will have the ability to sell the position of a beneficial owner without that owner's knowledge and without anyone else, including the depository, knowing that the sale is fraudulent. Several protective measures are called for. Regulations should require the stock-broker to promptly send a trade confirmation to his customer, and that the broker establish a check-point in his firm to insure compliance with prompt trade confirmation issuance. Such issuance should be regularly audited. SEBI inspections of brokerage firms should include reviews of the integrity of customer record-keeping. In addition to the trade confirmation sent by the broker to his customer no later than the business day after the trade, the broker should be required to send a month-end statement to his customer summarizing all activity in the customer's account if there is any activity in that account during the month.

With respect to this problem, several Indians told me that some retail investors would leave their security positions with banks, while trading these positions through brokers. If so, some trade confirmation system would have to link the investor, the broker, the bank, and the depository.

Mr. Chairman, as you can see I have commented only on draft regulations which I see as problems or potential problems. That is why this memorandum is short. I hope that you will accept these observations with the grace so evident in your character at our meeting. I wish you the very best in your vital tasks on behalf of the Indian economy and the Indian people.



Mr. William Dentzer's Trip Report for February 11 - 16, 1996

**TRIP REPORT
USAID/INDIA
FINANCIAL INSTITUTIONS REFORM AND
EXPANSION (FIRE) PROJECT**

CONSULTANT : **WILLIAM T. DENTZER JR.**

COMPANY : **DEPOSITORY TRUST CORPORATION**

DATE OF TRIP : **FEBRUARY 11 TO 16, 1996**

TASK ORDER : **NO. 004: TECHNICAL ASSISTANCE TO THE
SECURITIES AND EXCHANGE BOARD OF
INDIA (SEBI).**

TASK ORDER ACTIVITY : **SEBI DEPOSITORY REGULATIONS**

CONTRACT NUMBER : **386-0531-C-00-5010-00**

PROJECT NUMBER : **386-0531-3-30069**

**Price Waterhouse LLP
1616 North Fort Meyer Drive
Arlington, VA 22209
Tel : (703) 741-1000
Fax: (703) 741-1616**

90

To: Jon O'Rourke
Ashok Jha

From: J. R. Breen, FIRE project.

Trip report of William T. Dentzer, former chairman and CEO of the Depository Trust Company (DTC), and J. R. Breen, FIRE project Director, PW/OGS. .

Bill Dentzer's visit to Bombay, and interaction with the regulators, brokers, banks, custodians, and the National Stock Exchange (which is well advanced in the process of launching a depository) was extremely well received by all parties. The immediate impact was seen in the clarification of certain issues which have been under debate here in the Indian Market, and in building great interest among the industry participants in the improvement of settlement conditions in the Indian market. Each element of the industry, from Regulator to custodian to broker was keen to explore these issues and gain the unique knowledge from Mr. Dentzer who was the original CEO at The start up of the DTC in 1973. .

On Feb 12, 1996, Messrs. Dentzer and Breen, accompanied by Grubb and Pugh, attended the ICRIER-TASP conference, spearheaded by USAID. During that period, Mr. Dentzer was able to meet many of the officials of the USAID, as well as many Indian participants that held an interest in the capital markets. The morning highlight was a speech by the minister of Finance, Manmohan Singh, emphasizing the need for infrastructure changes in the capitl markets.

Immediately after the Finance Minister's speech, Mr. Dentzer and Mr. Breen, accompanied by Mr. Grubb, attended a meeting with Mr. Sarat Chandran, Joint Secretary of Finance, in his North block office. Mr. Sarat Chandran posed several questions to Mr. Dentzer about practices of depositories in the U.S. and other countries, especially concerning provisions to make sure that securities exist in an account prior to being transferred in the process of settlement. Mr. Dentzer agreed with him, and made several recommendations that should be incorporated in India's design to meet the requirement that Mr. Sarat Chandran desired. The issue of multiple depositories was discussed, and Mr. Dentzer reviewed the experience of the U.S. which started out with five depositories in 1974, and is now down to two, with one of these, DTC, having 99% of the depository business -- an effective monopoly. Mr. Dentzer raised a most serious concern with the provision of the ordinance requiring that the depository participants be agents of the depository. He related that this was not a feature of any depository in any part of the world, and imposed a condition that would inhibit the growth of the entire system if maintained. Mr. Sarat Chandran explained that the provision arose from a concern to protect the investor from the brokers: Mr. Dentzer offered an alternative of an Indian version of a SIPC (Securities Investor Protecton Corporation) -- a U.S. Program which insured any investor against loss (cash or securities) due to broker's action up to the amount of \$500,000. This is a program mandated by U.S. legislation, and paid for entirely by the brokers throughout the nation. Mr. S. Chandran expressed great interest and asked for details on this program. Mr. Breen requested the material from Washington, and transmitted it to Mr. S. Chandran the following day. Mr. S. Chandran also asked Mr. Dentzer to visit the SEBI in Bombay, Mr. Mehta, and to review with him these recommendations, as well as to read and comment on the proposed draft regulations on

depositories now available in SEBI.

In Bombay, Messrs Dentzer and Breen visited the Stock Holding Company of India Ltd, Mr. Chandrasekaran, and his team. Mr. C. Informed that the Chairman of SEBI had told him that he was not going to allow SCHIL to proceed with a depository - at least at this time. The reason advanced was the alleged involvement of SHCIL in the Reliance shares scandal. It appears that SHCIL is being used as a scapegoat in these proceedings since the major culprits are too powerful to be punished - especially in this year. The prospect of SHCIL as a major participant in any depository, including the NSE, was discussed in detail, and it was clear that SHCIL had unique capabilities that placed it in a leadership position among all prospective participants in a developing depository. Also discussed was the prospect of SHCIL being able to offer to brokers a "back office accounting system" for control of investor's assets (securities and cash) --such a system being essential to the operation of any depository system.

An interview with the Business Standard was conducted, and an article is expected in the near future.

Extensive time was allocated on Wednesday and Friday of the week to sessions with the National Stock Exchange -- Dr. Patil, R. Narain, C. Ramakrishna and other in the NSE depository team. The issues of the present depository design were discussed in detail, and Mr. Dentzer offered examples of alternative approaches to specific problems which came directly from the DTC experience.

The issue of liability for "agents-participants" was discussed in detail, and agreement reached that NSE and SEBI must come to agreement on measures to define very narrowly the risk for which the depository would consider the participants as its agents. This risk, thus narrowly defined, would then be covered by either insurance, if possible, or more likely a Participants Fund.

It was pointed out that the capital of DTC was in reality very small; what gave the market confidence was the Participants Fund which now totaled over \$670 million dollars. Most of this total was in the form of securities, on which the participants continued to earn a return in the form of interest and dividends. This amount also has been used as the basis for bank loans to DTC to accomplish improvements in services, and systems needed as the system progressed. The NSDL rules should make provision for the buildup of a Participants Fund, of sufficient proportions to assure the confidence of the market, and provide a base for borrowing to assure future capital needs.

At a luncheon hosted by the Chairman of the IDBI, Mr. Khan, issues of capitalization of the depository were reviewed. It was evident that IDBI and UTI intended to provide the key pieces of capital. Mr. Dentzer reviewed the model used in the original days of the DTC which started life being owned entirely by the NY Stock Exchange, and through a deliberate program of share sales to eligible participants widened the ownership of the depository to incorporate broad segments of the industry -- banks, brokers, stock exchanges, etc. Over time this ownership

pattern inspired confidence among all these parties that the depository was entirely objective and there to serve the interest of all elements of the industry, and not any particular segments or parties. Ownership did not confer any benefits in terms of a return on investment; the only motivation for ownership of stock was a voice in appointing management. Mr. Khan expressed that the IDBI did not expect a return on its investment, and he thought that a broader ownership policy was appropriate for the long run for the NSDL. One obstacle may be the present draft regulations of SEBI which requires the original promoters of the depository to hold no less than 51% of the equity. This would obviously have to change in the future if the broad ownership model of depository was recognized as the best for the industry.

On Thursday, the ICICI convened a meeting of custodians and banks with Mr. Dentzer and Mr. Breen. While ICICI representatives expressed initial enthusiasm for starting its own depository, it was clear that they had not thought out the various issues involved. Mr. Dentzer's comments, and presentation cause some serious re-examination of the issue. The participants were urged to contact the NSE and initiate discussions concerning joining the depository that was then in the final stages of preparation, and much nearer to start-up than any alternative plan. Again, the desirability of multiple depositories was brought up. In this group of bankers, the proposition was advanced by Dentzer and Breen that inter-bank payments clearing systems should be converted into competitive businesses. There were expressions of disbelief in this proposal, as the payments clearing system run by the central bank was a "service function". By the same token, the depository is a book entry transfer function, not for money drafts, but for securities. The point seemed to have some impact.

Messrs. Dentzer, Breen, and Grubb then went to a meeting with D. R. Mehta, Chairman of SEBI. At this meeting the U.S. Ambassador, Frank Wisner also attended with Mr. Warren, CONGEN, and his political officer. The issues of future SEBI regulations was brought up as Mr. Sarat Chandran had requested. Mr. Mehta handed over a draft copy of these and asked if Mr. Dentzer would take these with him and provide a comment to him at a later time. Mr. Dentzer promised to do so, and will be doing so on his return to the U.S.

Mr. Mehta was interested in a briefing on the meeting with Mr. Sarat Chandran, and was especially responsive to the suggestion that the market needed a program of investor protection such as the U.S. program called SIPC. A long discussion of this issue as it related to the issue of Agent-Principal organization of the depository ensued. Mr. Mehta expressed the view that we have to live with the legislation we have before us; any change would cause enormous delay which would be worse for the market. Mr. Dentzer agreed, and suggested that SEBI could find a way to narrow the definition of liability as much as possible. Mr. Mehta agreed that he would find a way to do so. Existing programs of insurance at the BSE and NSE may have to be broadened in their coverage in order to insulate the depository from excessive risk.

Ambassador Wisner, accompanied by two CONGEN persons) took leave midway though the meeting expressing his pleasure at the FIRE program, and Mr. Dentzer's visit. He assured Mr. Mehta of the support of the US. for his important mission.

Mr. Dentzer departed Bombay for the U.S. on February 17, 1996. He will prepare a report

consisting of his comments and recommendations concerning the proposed depository regulations to be delivered to the SEBI Chairman, Mr. D. R. Mehta. Mr. Breen remained in Bombay during the week of February 19 to consult with the depository team at the NSE concerning detailed implementation plans for the despository. Mr. Breen will depart Bombay for the U.S. on February 24, 1996.

END

ALP

February 8, 1996 Draft of the SEBI Depositories and Participants Regulations

Draft as of February 8, 1996, Confidential

THE GAZETTE OF INDIA

EXTRAORDINARY

PART III - SECTION 4

PUBLISHED BY AUTHORITY

NOTIFICATION

BOMBAY 1996

**SECURITIES AND EXCHANGE BOARD OF INDIA
(DEPOSITORIES AND PARTICIPANTS) REGULATIONS, 1996.**

F. NO.SEBI/LE/95/TV. In exercise of the powers conferred by section 30 read with section 12 of the Securities and Exchange Board of India Act, 1992 (15 of 1992) and section 25 read with sub-section (2) of section 3 and sub-section (2) of section 17 of the Depositories Ordinance, 1995 (_____ of 1996), the Securities and Exchange Board of India hereby makes the following regulations, namely:-

CHAPTER I

PRELIMINARY

**Short title and
commencement**

1. (1) These regulations may be called the Securities and Exchange Board of India (Depositories and Participants) Regulations, 1995.

(2) They shall come into force on the date of their publication in the Official Gazette.

Definitions

2. In these regulations, unless the context otherwise requires, -

(a) "Act" means the Securities and Exchange Board of India Act, 1992 (15 of 1992);

96

(b) "Depositories Ordinance" means the Depositories Ordinance, 1995 (11 of 1995);

(c) "enquiry officer" means any person authorised by the Board under regulation 70;

(d) "Form" means any of the forms specified in the First Schedule;

(e) "inspecting officer" means any person authorised by the Board, under regulation 84;

(f) "managing director", has the same meaning as in clause 26 of section 2 of the Companies Act, 1956 (42 of 1956);

(g) "Schedule" means any of the Schedules annexed to these regulations;

(h) "sponsor" means any person or persons who, acting alone or in combination with another person after completing the requirements of these regulations establishes a depository and undertakes to perform the obligation of a sponsor under these regulations;

(i) Words and expressions used and not defined in these regulations but defined in the Act or in the 'Depositories Ordinance' shall have the meanings respectively assigned to them in the Act or the Depositories Ordinance.

CHAPTER II
REGISTRATION OF DEPOSITORIES

Application for grant of certificate of registration

3. An application for a certificate of registration as a depository shall be made to the Board by the sponsor in Form A and shall be accompanied by the fee specified in part A of the Second Schedule in the manner specified in Part B thereof.

Application to conform to the requirements

4. An application in Form A which is not complete in all respects and does not conform to the instructions provided therein shall be rejected.

Provided that, before rejecting any such application, the applicant shall be given in writing an opportunity to remove, within the time specified from the date of receipt of the communication in this regard, the objections indicated by the Board.

Furnishing of information, clarification and personal representation

5.(1) The Board may require the applicant to furnish such further information or clarification regarding matters relevant to the activity of the depository for the purpose of consideration of the application.

(2) The sponsor or his authorised representative shall, if so required, appear before the Board for personal representation, in connection with the grant of a certificate of registration.

Consideration of application for grant of

6. The Board shall not entertain an application under regulation 3, unless the sponsor belongs to one of the

Draft as of February 8, 1996, Confidential

certificate of registration

following categories, namely:-

- (i) a public financial institution as defined in section 4A of the Companies Act, 1956, (1 of 1956);
- (ii) a bank included for the time being in the Second Schedule to the Reserve Bank of India Act, 1934, (2 of 1934);
- (iii) a foreign bank operating in India with the approval of the Reserve Bank of India;
- (iv) a recognised stock exchange within the meaning of clause (f) of section 2 of the Securities Contracts (Regulation) Act, 1956, (42 of 1956);
- (v) a financial institution promoted by any of the institutions mentioned in sub-clause (i), (ii), (iii) or (iv) jointly or severally;
- (vi) a body corporate constituted or recognised under any law for the time being in force in a foreign country and providing custodial, clearing or settlement services in the securities market; or
- (vii) a financial institution established outside India and approved by the Central Government in this regard.

Grant of certificate of registration

7. (1) The Board, on being satisfied that any of the institutions referred to in regulation 6 is eligible to act as sponsor, may grant a certificate of registration in Form A to the depository sponsored by such institutions subject to:-

- (a) the receipt of registration fee specified in Part A of the Second Schedule paid in the manner specified in

Part B thereof; and

(b) the fulfilment of the conditions specified in regulation 11.

Payment of annual fees

8. A depository shall pay annual fee specified in Part A of the Second Schedule in the manner specified in Part B thereof.

Renewal of certificate of registration

9. (1) Three months before the expiry of the period of validity of a certificate of registration, the depository shall, if he so desires, make an application for renewal in Form A.

(2) The application for renewal under sub-regulation (1) shall accompany the fee specified for issue of certificate of registration and shall be dealt with in the same manner as it were a fresh application for grant of certificate of registration.

Period of validity of the certificate of registration

10. The certificate of registration issued under regulation 7 or renewed under regulation 9 shall be valid for a period of five years from the date of its issue or renewal, as the case may be.

Conditions of grant or renewal of certificate of registration

11. The Board may grant or renew a certificate of registration granted to a depository subject to the following conditions, namely, :-

(a) the depository shall comply with the provisions of the Act, the Depositories Ordinance, these regulations and

the bye-laws;

(b) the depository shall have at all times a net worth of not less than one hundred crores of rupees;

(c) the depository shall not carry out any activity other than that of a depository unless the activity is incidental to the activity of the depository;

(d) the sponsor shall, at all times, hold atleast 51 per cent of the equity capital of the depository and the balance of the equity capital in the depositories shall be held by its participants;

(e) no participant shall at any time, hold more than 5 per cent of the equity capital of the depository;

(f) if any information previously submitted by the depository or the sponsor to the Board is found to be false or misleading in any material particular, or if there is any change in such information, the depository shall forthwith inform the Board in writing; and

(g) the depository shall redress the grievances of the participant and the beneficial owners within one month of the date of receipt of any complaint from a participant or a beneficial holder, and keep the Board informed about the number, nature, redressal and other particulars of the complaints received.

Procedure where certificate of registration is not granted

12. (1) Where an applicant for the grant of certificate of registration under regulation 7 or for its renewal under regulation 9, does not satisfy the requirements specified in regulation 7, the Board shall reject the application after giving the applicant an opportunity of being heard.

(2) The decision of the Board to reject the application

shall be communicated to the applicant in writing, stating therein the grounds on which the application has been rejected.

**Effect of refusal to renew
a certificate of registration**

13. Any depository whose application for renewal of certificate of registration has been rejected by the Board under regulation 12, shall from the date of expiry of the certificate of registration sought to be renewed cease to carry on any activity as a depository and comply with such directions which may be issued by the Board under section 19 of the Depository Ordinance.

CHAPTER III
CERTIFICATE OF COMMENCEMENT OF BUSINESS

**Application for grant of
c e r t i f i c a t e o f
c o m m e n c e m e n t o f
b u s i n e s s**

14. An application for grant of certificate of commencement of business shall be made by a depository who has been granted a certificate of registration under regulation 7.

**Application to conform to
the requirements**

15. Any application in Form B which is not complete in all respects and does not conform to instructions specified therein, shall be rejected.

Provided that, before rejecting any such application, the applicant shall be given an opportunity to remove within the time specified of the date of receipt of the communication in this regard he objections indicated by the Board.

**Furnishing of information,
clarification, and personal
representation**

16. (1) The Board may require the depository to furnish such further information or clarification regarding matters relevant for the grant of a certificate of commencement of business.

(2) The depository or its authorised officer, if so required, shall appear before the Board for personal representation in connection with the grant of a certificate of commencement of business.

**C o n s i d e r a t i o n o f
a p p l i c a t i o n f o r g r a n t o f
c e r t i f i c a t e o f
c o m m e n c e m e n t o f**

17. (1) The Board shall take into account for considering grant of certificate of commencement of business, all matters which are relevant to the efficient and orderly functioning of the depository and in particular, the

business

following, namely, whether:

(a) the depository has the necessary infrastructure, data processing systems, safeguards, adequate trained manpower, technical competence, systems and procedures to carry on activities as a depository, and to prevent manipulation and fraud in respect of records and transactions;

(b) the bye-laws of the depository have been approved by the Board;

(c) the depository has a detailed operations manual explaining all aspects of its functioning, including its interface with participants and issuers and has established the method of the transmission of information between the depository, issuers, issuers' agents, participants and beneficial owners;

(d) the depository has established adequate procedures and facilities to ensure that its records are protected against loss or destruction and arrangements have been made for maintaining back up facilities at a location different from that of the depository;

(e) the depository has made adequate arrangements including insurance for indemnifying the beneficial owners for any loss that may be caused to such owners by the wrongful act, negligence or default of the depository or its participants or of any employee of the depository or participant.

(2) The Board shall, before granting a certificate under this Chapter make a physical verification of the records and infrastructure facilities of the depository in order to satisfy itself that the requirements of sub-regulation (1) have been complied with by the depository.

Grant of certificate of commencement of business

18. The Board, on being satisfied that the depository is eligible for commencement of business, shall grant a certificate of commencement of business in Form E subject to the depository undertaking to abide by the provisions of these regulations.

CHAPTER IV
REGISTRATION OF PARTICIPANT

Application for grant of certificate

19. (1) An application for the grant of a certificate of registration as a participant shall be made to the Board in Form C, through the depository in which the applicant proposes to act as a participant and shall be accompanied by the fee specified in Part A of the Second Schedule in the manner specified in Part B thereof.

(2) The depository shall forward to the Board the application in Form C received from the participant as early as possible to the Board, but not later than thirty days from the date of receipt with its recommendations regarding the participant's eligibility to act as such, in accordance with the provisions of these regulations and the bye-laws of the depository.

Application to conform to the requirements

20. An application in Form C, which is not complete in all respects and does not conform to the instructions specified therein, shall be rejected:

Provided that before rejecting any such application, the applicant shall be given in writing an opportunity to remove within the time specified from the date of receipt of the communication in this regard, the objections indicated by the Board.

Furnishing information, clarification, and personal representation

21. (1) The Board may require the applicant, or the depository to which the applicant is to be admitted as a participant, to furnish such further information or clarification as may be considered necessary for the grant

of a certificate of registration to the participant.

(2) The applicant or his authorised representative shall, if so required, appear before the Board for personal representation in connection with the grant of a certificate of registration.

Consideration of application for grant of certificate of registration

22. For the purpose of grant of certificate of registration, the Board shall take into account all matters which are relevant to or relating to the efficient and orderly functioning of a participant within a depository.

Provided that the Board shall not entertain an application under regulation 17 -

- (a) the applicant belongs to one of the following categories, namely:-
- (i) a public financial institution as defined in section 4A of the Companies Act, 1956, (1 of 1956);
 - (ii) a bank included for the time being in the Second Schedule to the Reserve Bank of India Act, 1934, (2 of 1934);
 - (iii) a foreign bank operating in India with the approval of the Reserve Bank of India;
 - (iv) a state financial corporation established under the provisions of section 3 of the State Financial Corporations Act, 1951, (63 of 1951);
 - (v) a financial institution promoted by any of the institutions mentioned in sub clause (i), (ii), (iii), (iv) or jointly or severally;
 - (vi) a custodian of securities who has been granted a certificate of registration by the Board under sub-section (1A) of section 12 of the Act;

- (vii) a stock broker who has been granted a certificate of registration by the Board under sub-section (1) of section 12 of the Act:

Provided that the stock-broker shall have a minimum net worth of Rs.50 lakh and the aggregate value of the portfolio of securities of the beneficial owners held in dematerialised form in a depository through him should not be more than twenty five times the net worth of the stock broker:

Provided further that if the stock broker is acting as a participant in more than one depository, he shall comply with the criteria specified in the first proviso separately for each such depository.

- (viii) a non-banking financial company, registered with the Reserve Bank of India under the provisions of Reserve Bank of India Act, 1934 (2 of 1934) and having a net worth of not less than twenty five crores of rupees:

Provided that such company shall act as a participant only on behalf of itself and not on behalf of any other person.

(b) unless such applicant is eligible to be admitted as a participant of the depository through which he has made the application to the Board;

(c) unless the participant has adequate infrastructure and trained staff and has systems and procedures to the satisfaction of the depository to ensure that the participant

would be able to fulfil his obligations as a participant; and

(d) unless the applicant has adequate insurance cover to the satisfaction of the depository in which he has applied to become a participant.

Grant of certificate of registration

23.(1) The Board, on being satisfied that the application is complete in all respects and all particulars sought have been furnished and that the participant is eligible for grant of certificate of registration, grant a certificate in Form F.

(2) The certificate of registration granted to the participant under sub-regulation (1) shall be subject to -

(a) the receipt of registration fee specified in Part B of the Second Schedule paid in the manner specified in Part B thereof;

(b) the depository through which an application for certificate of registration has been forwarded to the Board holds a certificate of registration granted by the Board under regulation 7; and

(c) the participant complies with the conditions specified in regulation 24.

Payment of annual fee

24. A participant who has been granted a certificate of registration shall pay annual fees specified in Part A of the Second Schedule in the manner specified in Part B thereof.

Renewal of certificate of registration

25. (1) Three months before the expiry of the period of validity of a certificate of registration, the participant shall, if he so desires, make an application for renewal in Form A.

(2) The application for renewal under sub-regulation (1) shall accompany the fee specified for issue of certificate of registration and shall be dealt with in the same manner as it were a fresh application for grant of certificate of registration.

26. The Board may grant or renew the certificate of registration to a participant subject to the following conditions, namely:-

Conditions of grant or renewal of certificate of registration

(a) the participant shall comply with the provisions of the Act, the Depositories Ordinance, these regulations and the bye-laws;

(b) the participant shall forthwith inform the Board of any material change in the information previously furnished to the board;

(c) the participant shall take adequate steps for redressal of grievance of the beneficial owner within one month of the date of the receipt of the complaint and keep the Board informed about the number, nature and redressal of the complaints received;

(d) if the participant has opted to hold any portion of the equity capital of the depository, then such holding shall be

on the condition that it can be divested only to another participant.

Period of validity of the certificate of registration

27. The certificate of registration issued under regulation 2, or renewed under regulation 23, shall be valid for a period of five years from the date of its issue or renewal, as the case may be.

Procedure where certificate of registration is not granted

28. (1) Where an applicant for the grant of a certificate of registration as participant does not satisfy the requirements specified in regulation 21, or for renewal under regulation 23, the Board shall reject the application after giving an opportunity of being heard.

(2) The decision of the Board to reject the application shall be communicated by the Board within thirty days of such decision under sub-regulation (1) to the applicant in writing, stating therein the grounds on which the application has been rejected.

Effect of refusal to renew a certificate of registration

29. Any participant whose application for a certificate of registration as a participant has been rejected by the Board under regulation 23, shall from the date of expiry of the certificate of registration sought to be received, cease to carry on any activity as a participant and comply with such directions which may be issued by the Board under section 19 of the Depositories Ordinance.

CHAPTER V
RIGHTS AND OBLIGATIONS OF DEPOSITORIES,
PARTICIPANTS AND ISSUERS

Rights and Obligations

30. The depositories, participants and issuers shall, in addition to the rights and obligations laid down in the Depositories Ordinance, the bye-laws or in any agreement entered into under the Depositories Ordinance, have the rights and obligations laid down in this Chapter.

**Agreement between
depository and issuer**

31. (1) Every depository shall enter into an agreement with the issuer in respect of securities that are to be declared as eligible to be held in dematerialised form.

(2) Where the issuer has appointed a Registrar to the issue, who has been granted certificate of registration by the Board under sub-section (1) of section 12 of the Act, the depository shall enter into a tripartite agreement with the issuer and the Registrar to the Issue in respect of the securities declared by the depository as eligible to be held in dematerialised form.

Systems and procedures

32. Every depository shall have systems and procedures which will enable it to co-ordinate with the issuer or its agent, and the participants, to reconcile the records of ownership of securities with the issuer or its agent, as the case may be, and with participants, on a daily basis.

Connectivity

33. Every depository shall establish continuous electronic

means of communication with all its participants, issuers, or issuers' agents, as the case may be, clearing houses and clearing corporations of the stock exchanges and with other depositories.

Withdrawal by participant

34. (1) Every depository shall allow any participant to withdraw or transfer its account, if the request for such withdrawal or transfer is in accordance with conditions stipulated therefor in the bye-laws of the depository.

(2) The depository shall forthwith inform the Board of such transfer or withdrawal of account by a participant who has been permitted to do so under sub-regulation (1).

Internal monitoring, reviewing and evaluating of systems and controls

35. Every depository shall have an internal audit department with adequate and competent staff for the purposes of reviewing, monitoring and evaluating the depository's internal accounting controls, systems and procedures and submission of periodical reports to its Board of Directors.

External monitoring, reviewing and evaluating of systems and controls

36. Every depository shall appoint an independent expert who shall annually prepare a report discussing whether the systems and procedures being followed by the depository are adequate for the efficient, accurate and continuous functioning of the depository in accordance with the provisions of the Depositories Ordinance and these regulations.

Report to be submitted

37. The report of the independent expert appointed under regulation 34 shall be submitted to the Board, the Board

of Directors of the depository, and, on request, to the participants in the depository.

Insurance against risks

38. Every depository shall take adequate measures including insurance to protect against risks likely to be incurred on account of its activities as a depository.

Continuity of records

39. Where records are kept electronically by the depository, it shall ensure that the integrity of the data processing system is maintained at all times and shall take all precautions necessary to ensure that the records are not lost or destroyed and in the event of such loss or destruction, ensure that sufficient back up of records is available at all times at a different place.

**Change of participant by
beneficial owner**

40. Every depository shall specify in its bye-laws the manner in which the beneficial owner may change the participant through whom securities are held in dematerialised form in the depository.

**Co-operation with other
entities**

41. Every depository shall extend all such co-operation to the issuers, issuers' agents, custodians of securities, other depositories and clearing organizations as is necessary for the effective, prompt and accurate clearance and settlement of securities transactions and conduct of business.

Prohibition of Assignment

42. No depository shall assign or delegate to any other person its functions as a depository, without the prior approval of the Board.

Agreement by participant

43. Every participant shall before conducting any business on behalf of the beneficial owner, enter into an agreement with the beneficial owner in a manner specified by the depository in its bye-laws.

Separate Accounts

44. (1) Separate accounts shall be opened by every participant in the name of each of the beneficial owner and the securities of each beneficial owner shall be segregated, and shall not be commingled with those of other beneficial owner or with the participant's own securities.

(2) A participant shall transfer securities to or from a beneficial owner's account only on receipt of instructions from the beneficial owner.

(3) Every entry in the beneficial owner's account shall be supported by electronic instructions or any other mode of instruction from the beneficial owner in accordance with the agreement with the beneficial owner.

Statement of accounts

45. Every participant shall provide statements of account to the beneficial owner in accordance with the agreement with the beneficial owner.

**Transfer or withdrawal by
beneficial owner**

46. Every participant shall allow a beneficial owner to withdraw or transfer from his account, if the request for withdrawal or transfer is in accordance with conditions specified in the agreement with the beneficial owner.

Indemnification

47. Every participant shall indemnify a beneficial owner

on whose behalf he is acting as participant for any loss incurred by the beneficial owner to the wrongful act, negligence or default of the participant or any of its employees.

Connectivity

48. Every participant shall maintain continuous electronic means of communication with each depository in which he is acting as a participant.

Monitoring, reviewing and evaluating internal systems and controls

49. Every participant shall have adequate and competent staff and procedures for the purposes of reviewing, monitoring and evaluating the participant's internal accounting controls and systems.

Reconciliation

50. Every participant shall reconcile his own records with those of every depository of which he is a participant on a daily basis.

Returns

51. Every participant shall submit periodic returns to the Board and to every depository in which he is acting as participant in the format specified by the Board or the bye-laws of the depository, as the case may be.

Record of services

52. Every participant shall -

- (a) keep detailed records of all the transactions entered into with a depository and with a beneficial owner;
- (b) keep details of securities dematerialised, rematerialised and on the request of the depository;
- (c) keep detailed records of instructions received from

beneficial owners and statements of accounts sent to the beneficial owners under regulation 51;

- (d) make available for the inspection of the depository's all records referred to in clauses (a), (b) and (e); and
- (e) allow persons authorised by the depository to enter its premises during normal office hours and inspect such records.

Continuity in record keeping

53. Where records are kept electronically by the participant, it shall ensure that the integrity of the automatic data processing system is maintained at all times and shall ensure that the records are not lost or destroyed and in the event of such loss or destruction ensure that sufficient back up of records is available at all times at a different place.

Records to be maintained depository-wise

54. If a participant enters into an agreement with more than one depository, it shall maintain separately in respect of each such depository, records specified in regulation 55.

Prohibition of Assignment

54. No participant shall assign or delegate its functions as participant to any other person, without the prior approval of the depository.

Agreement by issuer

56. Every issuer whose securities have been declared as eligible to be held in dematerialised form in a depository shall enter into an agreement with the depository in accordance with the provisions of regulation 34.

Reconciliation

57. The issuer or his agent shall reconcile the records of dematerialised securities with all the securities issued by the issuer, on a daily basis.

Connectivity

58. Every issuer or his agent shall establish continuous electronic means of communication with the depository with which it has entered into an agreement.

Information

59. Every issuer whose securities have been declared as eligible for dematerialisation in a depository shall give timely information to the depository about book closures, record dates, dates for the payment of interest or dividend, dates for the annual general meeting, dates for redemption of debentures, dates for conversion of debentures and warrants, call money dates and such other information as may be specified by the depository in its bye-laws or agreement.

CHAPTER VI
SECURITIES, AND THEIR HANDLING BY DEPOSITORIES

Securities eligible for dematerialisation

60. (1) All securities defined as such in the Securities Contracts (Regulation) Act, 1956 (42 of 1956) shall be eligible for being held in dematerialised form in a depository, in accordance with the provisions of these regulations.

(2) Units of mutual funds, rights under collective investment schemes and venture capital funds, commercial paper, certificates of deposit, securitised debt, money market instruments and unlisted securities shall also be similarly eligible for being held in dematerialised form in a depository.

Depository to declare specific securities eligible

61. Every depository shall, in its bye-laws, enumerate the specific securities which are eligible for being held in dematerialised form in a depository.

Maintenance of records

62. Every depository shall make bye-laws as to the maintenance of proper books and records in respect of securities, whether through electronic or manual, and the depository as well as the participant and issuers and their agents shall comply with those bye-laws, in so far as they relate to the maintenance of books and records by them respectively.

**CHAPTER VII
INSPECTION AND AUDIT**

Board's right to inspect

63.(1) The Board may appoint one or more persons as inspecting officer to undertake inspection of the books of accounts, records, documents and infrastructure, systems and procedures, or to investigate the affairs of a depository, a participant, a beneficial owner, an issuer or his agent for any of the purposes specified in sub-regulation (2).

(2) The purposes referred to in sub-regulation (1) are the following, namely:-

(a) to ensure that the books of account are being maintained by the depository, participant, issuer or his agent in the manner required by these regulations;

(b) to investigate into the complaints received from investors, beneficial owners or any other person, on any matter having a bearing on the activities of the depository, participant, beneficial owner, issuer or his agent;

(c) to ascertain whether the provisions of the Act, the Depositories Ordinance and these regulations are being complied with by the depository, participant, beneficial owner, issuer or his agent;

(d) to ascertain whether the systems and procedures being followed by a depository, participant, beneficial owner, issuer or his agent are adequate for the efficient, accurate

and continuous provision of services; and

(e) to investigate suo motu into the affairs of the depository, participant, beneficial owner, issuer or his agent, in the interest of securities market or investors interest.

Notice before inspection

64. (1) Before ordering an inspection under regulation 63, the Board shall give a reasonable notice to the depository, participant, beneficial owner, issuer or his agent, as the case may be, for that purpose.

(2) Notwithstanding anything contained in sub-regulation (1), where the Board is satisfied that in the interest of the investors no such notice should be given, it may, by an order in writing direct that such inspection be taken up without such notice.

(3) During the course of an inspection, the person against whom the inspection is being carried out shall be bound to discharge his obligations as provided in regulation 76.

Obligations of on inspection by the Board

65. (1) It shall be the duty of the person and of every director, manager, partner, secretary, officer and employee of such person who is being inspected, to produce to the inspecting officer such books, accounts and other documents in his custody or control and furnish him with such statements and information relating to his activities concerned with his functions under these regulations, as the inspecting officer may require, within such reasonable period as the inspecting officer may specify.

(2) The person referred to in sub-regulation (1) shall allow the inspecting officer to have reasonable access to the premises occupied by such person or by any other person on his behalf and also extend reasonable facility for examining any books, records, documents and computer data in the possession of the person or any such other person and also provide copies of documents or other materials which, in the opinion of the inspecting officer, are relevant for the purposes of the inspection.

(3) The inspecting officer, in the course of inspection, shall be entitled to examine or to record the statements of any director, manager, officer, secretary, partner, or employee of such person.

(4) It shall be the duty of every director, manager, partner, secretary, officer or employee of such person to give to the inspecting officer all assistance in connection with the inspection, which the inspecting officer may reasonably require.

Submission of Report to the Board

66. The inspecting officer shall, as soon as possible, on completion of the inspection, submit an inspection report to the Board.

Communication of findings etc.

67. (1) The Board shall, after consideration of the inspection report referred to in regulation 79, communicate the findings to the depository, participant, issuer or his agent, as the case may be, and give him an opportunity of being heard, before any action is taken by the Board on the findings of the inspecting officer.

Draft as of February 8, 1996, Confidential

(2) On receipt of the explanation if any, from the depository, participant, issuer or his agent, as the case may be, the Board may call upon him to take such measures as the Board may deem fit in the interest of the securities market and for due compliance with the provisions of the Act, the Depositories Ordinance, these regulations and the bye-laws.

CHAPTER VIII
SUSPENSION OR CANCELLATION OF CERTIFICATE

Suspension of certificate

68. The Board may suspend the certificate of registration granted to a depository or a participant, if such depository or participant -a) contravenes any of the provisions of the Act, the Depositories Ordinance, these regulations or the bye-laws;

b) fails to furnish any information relating to its activity as a depository or participant as required under the regulations;

c) does not furnish the information called for by the Board under clause (a) of sub-section (1) of section 18 of the Depositories Ordinance or furnishes information which is false and misleading in any material particular;

d) does not co-operate in any enquiry conducted by the Board;

e) fails to transfer the certificate of securities as intimated by the beneficial owner under section 14 of the Depositories Ordinance;

f) fails to comply with any direction of the Board issued under section 18 of the Depositories Ordinance.

Cancellation of certificate

69. The Board may also cancel the certificate of registration granted to a depository or participant of such depository or participant - a) is guilty of fraud, or has been convicted of an offence involving moral turpitude; or

b) has been guilty of repeated defaults of the nature specified in regulation 81.

Explanation : In this regulation, "fraud" has the same meaning as is assigned to it in section 17 of the Indian Contract Act, 1872 (9 of 1872).

**Manner of making order
of cancellation or
suspension**

70.(1) No order of suspension or cancellation of certificate of registration shall be issued by the Board against a depository or a participant, except after holding an enquiry in accordance with the procedure specified in sub-regulation (2).

(2) For the purpose of holding an enquiry under this regulation, the Board may appoint an enquiry officer.

(3) The enquiry officer authorised under sub-regulation (2) shall issue to the depository or participant, as the case may be, at this registered office or the principal place of its business, a notice setting out the grounds on which action is proposed to be taken against him and calling upon him to show cause against such action within a period of fourteen days from the date of receipt of the notice by such depository or participant.

(4) The depository or participant, within the period specified in sub-regulation (3) shall furnish to the enquiry officer a written reply, together with copies of documentary or other evidence relied on by him or sought by the Board from him.

(5) The enquiry officer shall give a reasonable opportunity of hearing to the depository or participant, to enable him to make submissions in support of his reply made under

sub-regulation (4) of this regulation.

(6) The enquiry officer may, if he considers it necessary, ask the Board to appoint a presenting officer to present its case.

(7) The enquiry officer shall, after taking into account all relevant facts and submissions made by the depository or participant, submit a report to the Board and recommend suspension or cancellation of the certificate of registration and the grounds therefor.

Show-cause notice and order

71. (1) On receipt of the report from the enquiry officer, the Board shall consider the same and issue to the depository or participant, as the case may be, a show-cause notice as to why his certificate of registration should not be suspended or cancelled.

(2) The depository or participant, as the case may be, shall, within fourteen days of the date of the receipt of show-cause notice, send a reply to the Board.

(3) The Board, after considering the reply of the depository or participant, as the case may be, to the show-cause notice, if received within a period of fourteen days shall, as soon as possible but not later than fourteen days from the receipt of the reply, if any, pass such order as it deems fit.

(4) Every order passed under sub-regulation (3) shall be

self-contained and shall give reasons for the conclusions arrived at therein, including the justification for arriving at such conclusion.

(5) The Board shall send to the depository or participant, as the case may be, a copy of the order under sub-regulation (3).

**Effect of suspension or
cancellation of certificate**

72. (1) On and from the date of the suspension of the certificate of registration, the depository or participant, as the case may be, shall cease to carry on any activity as a depository or participant, as the case may be, during the period of suspension.

(2) On and from the date of cancellation of the certificate, the depository or participant, as the case may be, shall, cease to carry on any activity as a depository or participant.

**Publication of order of
suspension or cancellation**

73. The order of suspension or cancellation of certificate of registration issued under sub-regulation (3) of regulation 71 shall be published by the Board in at least two daily newspapers.

Draft as of February 8, 1996. Confidential

FIRST SCHEDULE - FORMS

FORM A

(see regulations 3 and 9)

SECURITIES AND EXCHANGE BOARD OF INDIA
(DEPOSITORIES AND PARTICIPANTS) REGULATIONS, 1995.

APPLICATION FOR GRANT OR RENEWAL OF CERTIFICATE OF REGISTRATION AS
DEPOSITORY

SECURITIES AND EXCHANGE BOARD OF INDIA
MITTAL COURT, 'B' WING, 1st FLOOR
NARIMAN POINT, BOMBAY 400 021
INDIA

FAX: +91 22 202 5633/202 1073

INSTRUCTIONS:

- i. This form is meant for use by each person acting as the sponsor of a depository, in case application is being made to set up a depository, or by the depository in case its certificate of registration is to be renewed.
- ii. The applicant should complete this form, and submit it, along with all supporting documents to the Board at its head office at Bombay.
- iii. This application form should be filled in accordance with the regulations.
- iv. Application for grant of registration as depository or renewal of such registration, as the case may be, will be considered provided it is complete in all respects.
- v. All answers must be typed.
- vi. Information which needs to be supplied in more detail may be given on separate sheets which should be attached to the application form.
- vii. The application must be signed and all signatures must be original.
- viii. The application must be accompanied by an application fee as specified the Second Schedule to these regulations.
- ix. Every page of the form and every additional sheet must be initialled by the authorised signatory of the applicant.
- x. All copies of documents should be attested as true by an authorised notary.

Draft as of February 8, 1996, Confidential

Items 1-6 pertain to an applicant acting as sponsor.

1. Name, address of the registered office, address for correspondence, telephone number(s), fax number(s), telex number(s) and the name of the contact person of the sponsor.
2. Please indicate the name of the depository which is to be sponsored by the applicant.
3. Please indicate the names of other depositories, if any, which have been sponsored by the applicant, or in which the applicant is acting as participant.
4. Please indicate the category to which the sponsor belongs as per sub-regulation (a) of regulation 8. In case the sponsor is:
 - (i) a public financial institution
 - (ii) a scheduled bank
 - (iii) a foreign bank
 - (iv) a recognised stock exchange
 - (v) an institution as per clause (v) of sub-regulation (a) of regulation 8.
5. **Please provide the following details of each person acting as sponsors under 2 above**
 - (a) Date of incorporation or establishment, and the statute, if any, under which established (enclose certificate of incorporation, memorandum and articles of association or statutory provisions, if any).
 - (b) Objects of the applicant.
 - (c) Details the nature of activities carried on by the applicant.
 - (d) Details of affiliates and subsidiaries, and activities carried on by them.
 - (e) Details of registration with the Securities and Exchange Board of India or with the Reserve Bank of India of the applicant, its affiliates and its subsidiaries (enclose documents supporting such registration).
 - (f) Networth of the applicant (enclose a copy of the latest audited financial statements).
 - (g) Percentage and amount of the paid up capital of the depository which the applicant is to hold.

BEST AVAILABLE COPY

Draft as of February 8, 1996, Confidential

6. **Declaration statement (to be given as below) by each person acting as sponsor.**

We hereby agree and declare that the information supplied in the application, including the attachment sheets, is complete and true.

AND we further agree that, we will notify Securities and Exchange Board of India immediately any change in the information provided in the application.

We further agree that we shall comply with, and be bound by the Securities and Exchange Board of India Act, 1992, and Securities and Exchange Board of India (Depositories and Participants) Regulations, 1995, and such other guidelines/instructions which may be announced by the Securities and Exchange Board of India from time to time.

We further agree that as a condition of registration, we shall abide by such operational instructions/directives as may be issued by the Securities and Exchange Board of India from time to time.

For and on behalf of.....
(Name of the applicant)

Authorised signatory
(Name) (Signature)

Date:

Place:

Items 7-14 pertain to the depository, and should be filled in accordingly by the depository.

7. Name, address of the registered office, address for correspondence, telephone number(s), fax number(s), telex number(s) and the name of the contact person of the applicant.
8. Date of incorporation of the applicant. (enclose certificate of incorporation and memorandum and articles of association)
 - (a) Objects (main and ancilliary) of the applicant.
 - (b) Authorised, issued subscribed and paid up capital of the applicant.
 - (c) Networth of the applicant (please enclose a certificate from the auditors).
 - (d) Details and shareholding of each person acting as sponsor.
9. The following details may be given for each director of the applicant, and for the principal officer.
 - (a) Name, age, nationality.
 - (b) Details of educational and other qualifications.

Draft as of February 8, 1996, Confidential

- (c) Details of experience.
 - (d) Details of other directorships held.
 - (e) Details of any litigation connected with the securities market which has an adverse bearing on the business of the depository, involving the director or principal officer; and details of any conviction of the director or principle officer for a crime involving moral turpitude or of any economic office for which the director or principle officer has been found guilty.
10. Please indicate the details of staff and organisation structure that is proposed to be set up prior to commencement of business.
 11. Details of infrastructure such as premises and automatic data processing, storage and back up systems and procedures, communication systems that are proposed to be set up prior to commencement of business.
 12. Internal evaluation and monitoring systems that are proposed to be set up prior to the commencement of business.
 13. Arrangements for indemnification of beneficial owners that are proposed to be put in place, including details of insurance cover proposed to be taken prior to the commencement of business.
 14. **Declaration statement (to be given as below).**

We hereby agree and declare that the information supplied in the application, including the attachment sheets, is complete and true.

AND we further agree that, we will notify Securities and Exchange Board of India immediately any change in the information provided in the application.

We further agree that we shall comply with, and be bound by the Securities and Exchange Board of India Act, 1992, and Securities and Exchange Board of India (Depositories and Participants) Regulations, 1995, and such other guidelines/instructions which may be announced by the Securities and Exchange Board of India from time to time.

We further agree that as a condition of registration, we shall abide by such operational instructions/directives as may be issued by the Securities and Exchange Board of India from time to time.

For and on behalf of.....
(Name of the applicant)

Authorised signatory
(Name) (Signature)

Date:

Place:

BEST AVAILABLE COPY

132

Draft as of February 8, 1996. Confidential

FORM B

(see regulation 14)

SECURITIES AND EXCHANGE BOARD OF INDIA
: (DEPOSITORIES AND PARTICIPANTS) REGULATIONS, 1995.

APPLICATION FOR GRANT OF
CERTIFICATE OF COMMENCEMENT OF BUSINESS AS A DEPOSITORY

SECURITIES AND EXCHANGE BOARD OF INDIA
MITTAL COURT, 'B' WING, 1st FLOOR
NARIMAN POINT, BOMBAY 400 021
INDIA

FAX: +91 22 202 5633/202 1073

BEST AVAILABLE COPY

INSTRUCTIONS:

- i. This form is meant for use by a depository granted a certificate of registration by the Securities and Board of India.
- ii. The applicant should complete this form, and submit it, along with all supporting documents to the Board at its head office at Bombay.
- iii. This application form should be filled in accordance with the regulations.
- iv. Application for grant of registration as depository or renewal of such registration, as the case may be, will be considered provided it is complete in all respects.
- v. All answers must be typed.
- vi. Information which needs to be supplied in more detail may be given on separate sheets which should be attached to the application form.
- vii. The application must be signed and all signatures must be original.
- viii. Every page of the form and every additional sheet must be initialed by the authorised signatory of the applicant.
- ix. All copies of documents should be attested as true by an authorised notary.

BEST AVAILABLE COPY

Draft as of February 8, 1996, Confidential

1. Name and registration number of the applicant.
2. Date of grant of certificate of registration to the applicant.
3. Please indicate whether bye-laws have been approved by SEBI.
4. Please indicate the details of staff and organisation structure that has been set up.
5. Please indicate the background and experience of key personnel.
6. Please indicate the background and experience of personnel in the internal department set up in compliance with regulation 41, and its organisation structure.
7. Internal evaluation and monitoring systems that have been set up (enclose copies of risk management or operations manuals).
8. Please provide the following details of the automatic data processing and communications systems:
 - (a) details of hardware, software and communications systems, their capability, function and location;
 - (b) details of data storage and back up procedures and sites, their capability, function and location;
 - (c) details of disaster recovery systems and procedures.
9. Please indicate whether premises and automatic data processing and communications systems are owned, leased or rented (enclose copies of title, lease or rental agreements).
10. Please indicate whether records of beneficial owners are to be maintained by the applicant or by participants.
11. Please indicate arrangements that have been put in place in order to indemnify beneficial owners.
12. Please enclose copy of insurance policy that has been taken.
13. Please enclose a copy of the participation agreement to be entered into with different categories of participants.
14. Please enclose a copy of the agreement to be entered into with the issuer, or with the issuer and his registrar.
15. **Declaration statement (to be given as below).**

We hereby agree and declare that the information supplied in the application, including the attachment sheets, is complete and true.

AND we further agree that, we will notify Securities and Exchange Board of India immediately any change in the information provided in the application.

We further agree that we shall comply with, and be bound by the Securities and Exchange Board of India Act, 1992, and Securities and Exchange Board of India (Depositories and Participants) Regulations, 1995, and such other guidelines/instructions which may be announced by the Securities and Exchange Board of India from time to time.

We further agree that as a condition of registration, we shall abide by such operational instructions/directives as may be issued by the

135

Draft as of February 8, 1996, Confidential

Securities and Exchange Board of India from time to time.

For and on behalf of.....
(Name of the applicant)

Authorised signatory
(Name) (Signature)

Date:

Place:

BEST AVAILABLE COPY

136

Draft as of February 8, 1996, Confidential

FORM C

(see regulation 17)

SECURITIES AND EXCHANGE BOARD OF INDIA
(DEPOSITORIES AND PARTICIPANTS) REGULATIONS, 1995.

APPLICATION FOR GRANT OF REGISTRATION AS PARTICIPANT

SECURITIES AND EXCHANGE BOARD OF INDIA
MITTAL COURT, 'B' WING, 1st FLOOR
NARIMAN POINT, BOMBAY 400 021
INDIA

FAX: +91 22 202 5633/202 1073

INSTRUCTIONS:

- i. This form is meant for use by an applicant for grant of registration as participant.
- ii. The form should be filled in by the applicant and submitted to the depository in which he is acting as participant, who shall forward it, along with all supporting documents to the Board at its head office at Bombay.
- iii. This application form should be filled in accordance with the regulations.
- iv. Application for grant of registration as participant or renewal of such registration, as the case may be, will be considered provided it is complete in all respects.
- v. All answers must be typed.
- vi. Information which needs to be supplied in more detail may be given on separate sheets which should be attached to the application form.
- vii. The application must be signed and all signatures must be original.
- viii. The application must be accompanied by an **application fee** as specified in the Second Schedule to these regulations.
- ix. Every page of the form and every additional sheet **must be initialled** by the authorised signatory of the applicant.
- x. All copies of documents should be **attested** as true by an authorised notary.

BEST AVAILABLE COPY

Draft as of February 8, 1996, Confidential

1. Name address of the registered office, address for correspondence, telephone number(s), fax number(s), telex number(s) of the applicant and the name of the contact person.
2. Please indicate to which of the following categories the applicant belongs.
 - (i) public financial institution
 - (ii) domestic bank
 - (iii) foreign bank
 - (iv) state financial institution
 - (v) an institution as per sub-clause (v) of clause (a) of regulation 25.
 - (vi) custodian of securities
 - (vii) stock broker
 - (viii) non banking finance company
3.
 - (a) Date and place of incorporation or establishment and date of commencement of business (enclose certificate of incorporation, memorandum and articles of association or statutory provisions, if any).
 - (b) Details of the activities carried on by the applicant, in India or overseas.
 - (c) Details of affiliates and subsidiaries of the applicant operating in India, and activities carried on by them.
 - (d) Details of registration with the Securities and Exchange Board of India or with the Reserve Bank of India or with any regulatory authority overseas of the applicant, and of its affiliates and subsidiaries operating in India.
 - (e) Date of commencement of business in India and overseas (please enclose copies of the Reserve Bank of India's permission, and if applicable copies of approvals from the Central Government to carry on activities mentioned above).
 - (f) Type and number of beneficial owners on whose behalf the applicant proposes to act as participant (Financial Institutions, Mutual Funds, Foreign Institutional Investors, Depository Receipts, Portfolio Managers, Non Banking Finance Companies, Stock Brokers, Corporates, Individuals, or for own account.)
4. Please give the name and SEBI registration number of the depository in which the applicant is to act as participant.
5. Please indicate the names and SEBI registration numbers of all other depositories in which the applicant is acting as participant.
6. Please state whether the applicant, his partner, director or principal officer is involved in any litigation connected with the securities market which has an adverse bearing on the business of the applicant; or has at any time been convicted for any moral turpitude or at any time has been found guilty of any economic offence.

Draft as of February 8, 1996. Confidential

7. Please also state whether there has been any instance of violation or non-adherence to the securities laws, code of ethics/conduct, code of business rules, for which the applicant, or its parent or holding company or affiliate may have been subject to economic, or criminal, liability, or suspended from carrying out its operations, or the registration revoked temporarily.
8. Please indicate the net worth and paid up capital in Rs. Crore as per the latest audited financial statements of the applicant (enclose copy).
9. Please indicate services that the applicant is already providing to beneficial owners on whose behalf the applicant proposes to act as participant, and services proposed to be provided to beneficial owners.
10. Please provide the following details regarding staff involved in activities as participant.
 - (i) organisation structure;
 - (ii) experience and background of key personnel.
11. Please provide the following details regarding safekeeping and security systems and procedures:
 - (i) risk control and operations manuals (enclose copies);
 - (ii) give details of independent internal control mechanisms for monitoring, evaluation and review of accounting, and reporting systems and procedures.
12. Please provide the following details regarding automatic data processing systems and record keeping:
 - (i) details of hardware, software and communications systems, their capability, function and location;
 - (ii) details of data storage and back up procedures and sites, their capability, function and location;
 - (iii) details of disaster recovery systems and procedures.
13. Details of insurance cover to be taken up.
14. Please indicate the applicant's shareholding for each depository in which he has such shareholding and whether any shareholding is proposed to be acquired in the depository through which this application is being made.
15. Please indicate whether records of beneficial owners are to be maintained by the participant or the depository.
16. Please enclose a copy of an undertaking from the depository in which the applicant is to act as participant that
 - (a) the applicant is eligible to act as participant in the depository through which this application is being submitted to SEBI, and meets with the eligibility criteria for participants specified in these regulations and in the depository's bye-laws;

- (b) the applicant has adequate automatic data processing systems, adequate and competent staff, risk management systems, procedures and manuals, disaster recovery procedures, secure data storage and off site back up facilities, adequate communications links and insurance; to enable the applicant to fulfil its obligations as participant to the satisfaction of the depository; and
- (c) the agreement to be entered into between the participant and beneficial owners has been submitted to the depository is in accordance with the depository's bye-laws.

17. Declaration statement (to be given as below).

We hereby agree and declare that the information supplied in the application, including the attachment sheets, is complete and true.

AND we further agree that, we will notify Securities and Exchange Board of India immediately any change in the information provided in the application.

We further agree that we shall comply with, and be bound by the Securities and Exchange Board of India Act, 1992, and Securities and Exchange Board of India (Depositories and Participants) Regulations, 1995, and such other guidelines/instructions which may be announced by the Securities and Exchange Board of India from time to time.

We further agree that as a condition of registration, we shall abide by such operational instructions/directives as may be issued by the Securities and Exchange Board of India from time to time.

For and on behalf of.....
(Name of the applicant)

Authorised signatory
(Name) (Signature)

Date:

Place:

Draft as of February 8, 1996, Confidential

FORM D

(see regulation 7)

SECURITIES AND EXCHANGE BOARD OF INDIA
(DEPOSITORIES AND PARTICIPANTS) REGULATIONS, 1995.

CERTIFICATE OF REGISTRATION AS DEPOSITORY

I. In exercise of the powers conferred by sub-section (1A) of section 12 of the Securities and Exchange Board of India Act, 1992, (15 of 1992) read with the regulations made thereunder and with the Depositories Ordinance, 1995, (11 of 1995) the Board hereby grants a certificate of registration to

_____ as a Depository subject to the conditions specified in the Act, the Ordinance and the regulations made thereunder.

II. Registration Number for the Depository is SD/ / /

III. Unless renewed, the certificate of registration is valid from

_____ to _____ .

Date:

Place: Bombay

By order

Sd/-

For and on behalf of
SECURITIES AND EXCHANGE BOARD OF INDIA

BEST AVAILABLE COPY

Draft as of February 8, 1996. Confidential

FORM E

(see regulation 17)

**SECURITIES AND EXCHANGE BOARD OF INDIA
(DEPOSITORIES AND PARTICIPANTS) REGULATIONS, 1995.**

CERTIFICATE OF COMMENCEMENT OF BUSINESS AS DEPOSITORY

In exercise of the powers conferred by section 3 of the Depositories Ordinance (11 of 1995) read with the regulations, the Board hereby grants a certificate of commencement of business to

as a depository subject to the conditions specified in the Act, the Ordinance and the regulations.

Date:

Place: Bombay

By order

Sd/-

For and on behalf of
SECURITIES AND EXCHANGE BOARD OF INDIA

BEST AVAILABLE COPY

Draft as of February 8, 1996. Confidential

FORM F

(see regulation 21)

**SECURITIES AND EXCHANGE BOARD OF INDIA
(DEPOSITORIES AND DEPOSITORY PARTICIPANTS) REGULATIONS, 1995.**

CERTIFICATE OF REGISTRATION AS PARTICIPANT

I. In exercise of the powers conferred by sub-section (1A) of section 12 of the Securities and Exchange Board of India Act, 1992, (15 of 1992) read with the regulations made thereunder and with the Depositories Ordinance, 1995, (11 of 1995) the Board hereby grants a certificate of registration to

_____ as a participant subject to the conditions specified in the Act, the Ordinance and the regulations made thereunder.

II. Registration Number for the participant is DP/ / /

III. Unless renewed, the certificate of registration is valid from

_____ to _____ .

Date:

Place: Bombay

By order
Sd/-
for and on behalf of

SECURITIES AND EXCHANGE BOARD OF INDIA

BEST AVAILABLE COPY

144

SECOND SCHEDULE

(see regulations 2(j), 7(1)(a) and 8)

SECURITIES AND EXCHANGE BOARD OF INDIA
(DEPOSITORIES AND DEPOSITORY PARTICIPANTS) REGULATIONS, 1993.

PART A

APPLICATION FEES AND ANNUAL FEES

Application fees payable by sponsor (Rs)	5,00,000
Registration fees payable by depository (Rs)	15,00,000
Registration fees payable by participant (Rs)	1,00,000
Annual fees payable by depository (Rs)	10,00,000
Annual fees payable by participant (Rs)	25,000

PART B

Manner of Payment of Application, Registration and Annual Fees:

Fees to be paid by	Manner of payment
Sponsor or depository	A demand draft or cheque payable to the "Securities and Exchange Board of India" at Bombay.
Participant	Fees to be paid to the depository in which the payer is a Participant. The Depository shall forward the fees collected from participants to the Board, with a demand draft or cheque drawn on the depository payable to the "Securities and Exchange Board of India" at Bombay.