



Central Depository Services (India) Limited

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COMMUNIQUÉ TO DEPOSITORY PARTICIPANTS

CDSL/A&I/DP/1087

April 03, 2008

SEBI's CLARIFICATION ON "IN-PERSON" VERIFICATION OF APPLICANTS AT THE TIME OF OPENING DEMAT ACCOUNTS

DPs are advised to refer to communiqué no. CDSL/A&I/DP/978 dated October 22, 2007 regarding "in-person" verification of applicants at the time of opening demat accounts of non-body corporates and communiqué no. CDSL/OPS/DP/956 dated September 14, 2007 pertaining to compliance requirements with respect to branches of DPs.

SEBI, vide its letter no. F NO. 47-2006/ISD/SR/118153/2008 dated February 22, 2008 has issued following clarifications about "in-person" verification.

- (i) The staff of a holding company or subsidiary company (as defined in Companies Act, 1956) of a DP may do the verification pursuant to a written arrangement with the DP and after obtaining the depository's permission. However, the responsibility of KYC compliance will remain with the DP.
- (ii) The term "group company" is not defined in Companies Act or SEBI Act or Depositories Act. The scope of common parlance understanding of group company may be very wide defeating the objective of tightening of KYC compliances while opening BO accounts. Therefore, the staff of a group company of the DP will not be permitted to conduct KYC on behalf of the DPs.
- (iii) The staff of a franchisee or direct selling agent will not be permitted to conduct KYC on behalf of the DPs. These entities, by their very nature and small scale of operations, may lack the sensitivity to the regulatory concerns that are sought to be addressed through the requirement of 'in-person' verification of BOs while opening demat accounts.
- (iv) The brokers of stock exchanges act as franchisees of DPs. Since the brokers have a regulatory obligation to conduct KYC verifications of their secondary market clients, the very same brokers, who act as franchisees of DPs, may be allowed to conduct 'in-person' verification while opening BO accounts with the DPs.

DPs are advised to note the above clarifications and comply with the same.



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Further, during the surveillance meeting held on March 10, 2008, SEBI has directed that the DPs should conduct in-person verification of demat accounts of non-body corporates, opened prior to implementation of the in-person verification and submit a certificate on the same within 4 months.

Accordingly, DPs are hereby instructed that if in-person verification was not done by the DP staff earlier, the same should be carried out as per the procedure laid down in communiqué no. CDSL/A&I/DP/978 dated October 22, 2007, for all active non-corporate accounts either by the DP staff or in accordance with the clarifications mentioned above at serial no. (i) to (iv). A certificate confirming completion of in-person verification for all non-corporate accounts including accounts of live connected branches should be submitted to CDSL by all Main DPs not later than **June 30, 2008** in the format specified (see **Annexure-A**). Please note that an account that is not under 'active' status should be activated only after completion of in-person verification.

Concurrent Audit of risk prone areas on 100% basis

As all DPs are aware, the concurrent auditors should check for compliance of the above-mentioned procedures on 100% basis under "Account Opening" and report to CDSL if any non-compliance is observed.

Queries regarding this communiqué may be addressed to **CDSL–Audit** on telephone no. (022) 2272-3333 (extn. 8687, 8564, 8679, 8691, 8647, 8631, 8678)

sd/-

Nayana Ovalekar
Vice President – Audit, Legal & Compliance

[ON THE LETTERHEAD OF THE MAIN DP]

Date: ____/____/____

Central Depository Services (India) Limited

Audit, Inspection and Compliance Dept.

17th Floor, P J Towers,

Dalal Street, Fort,

Mumbai – 400 001

Sub: Confirmation of “In-Person” verification

Dear Sir / Madam,

This is to certify that we have completed “In-person” verification of all our active accounts including accounts opened at live connected branches, in accordance with communiqué no. CDSL/A&I/DP/1087 dated April 03, 2008.

Name & Signature of the Compliance Officer of the Main DP

DP Name & Stamp