



भारतीय प्रतिभूति और विनिमय बोर्ड
Securities and Exchange Board of India

SEBI/HO/MIRSD/DOP1/CIR/P/2018/80

May 11, 2018

To,

All Underwriters registered with SEBI

Dear Sir / Madam,

Subject: Master Circular for Underwriters registered with SEBI

1. Securities and Exchange Board of India (SEBI) has been issuing various circulars/directions from time to time. In order to enable the users to have an access to the applicable circulars/directions at one place, Master Circular for Underwriters registered with SEBI has been prepared.
2. This Master Circular is a compilation of the circulars issued by SEBI up to March 31, 2018, which are operational as on the date of this circular. References in the circular to the statutes / Regulations which now stand repealed, have been suitably updated.
3. In case of any inconsistency between the Master Circular and the applicable circulars, the contents of the relevant circular shall prevail.
4. The Master Circular is a compilation of all the existing/ applicable circulars issued by the Market Intermediaries Regulation and Supervision Department of SEBI to Underwriters. Efforts have been made to incorporate applicable provisions of existing circulars issued by other Departments of SEBI relevant to Underwriters.

Yours faithfully,

Surabhi Gupta
Deputy General Manager
Phone No.: 022 -26449315
Email ID: surabhig@sebi.gov.in



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CHAPTER - I - REGULATORY COMPLIANCE AND PERIODIC REPORTING

1. Conditions for granting registration where a connected persons has been granted registration¹

1.1. The Board may consider grant of certificate to an applicant, notwithstanding that another entity in the same group has been previously granted registration by the Board, if the following conditions are fulfilled:

1.1.1. The entities are incorporated as separate legal entities.

1.1.2. The entities have independent Board of Directors. Independent Board of Directors for this purpose means that common directors should not be in majority in both the Boards.

1.1.3. There is absolute arm's length relationship with reference to their operations.

1.1.4. The key personnel and infrastructure are independently available for each entity.

1.1.5. Each entity has independent regulatory controls and supervisory mechanism

1.2. It is also clarified that when as per the above policy, two entities in the same group are granted registration, any action by way of suspension or cancellation of registration taken by SEBI against one entity, may entail action under Regulation 25 of the said Regulations against other entities of the same group registered in terms of the said Regulations.

Explanation: For the purposes of this circular, two entities are considered to be in the same group if:

1. the same person, by himself or in combination with relatives, directly or indirectly exercises control over both the entities or,

2. the entities are related parties as defined under SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 or,

¹ RUW Circular No. 1 (2002-2003) dated September 23, 2002



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3. where one entity directly or indirectly exercises control over the other entity.

['Control' for this purpose means control as defined in regulation 2(1)(e) of the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011]

2. Designated e-mail ID for regulatory communication with SEBI²

2.1. SEBI has been communicating with the registered market intermediaries, stock exchanges and depositories etc. through circulars, letters, directions etc. SEBI has already put in place a system for issuance of digitally signed circulars with respect to stock exchanges, depositories and merchant bankers.

2.2. In line with the above, it has been decided to extend the system of issuance of digitally signed circulars to all other registered intermediaries.

2.3. In order to facilitate the above, all registered intermediaries are required to create a designated email id for regulatory communications. This email id shall be an exclusive email id only for the above purpose and should not be a person centric email id.

2.4. The Designated e-mail ID shall be communicated to SEBI at intermediary@sebi.gov.in as per the format prescribed at Annexure I.

ANNEXURE I

Format for sending the Designated e-mail ID for regulatory communication with SEBI

1. The file should be an excel file.
2. The name of the file and the subject of the email shall specify the type of intermediary and the name of the intermediary. For example - "Registrar to an issue - ABC co. Ltd."
3. The file shall contain the following details:

Name	Address	Category	Registration No	Designated email id	Name of compliance officer

² SEBI Circular No. MIRSD/ DPSIII/ Cir-21/ 08 dated July 07, 2008



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The file shall be emailed to intermediary@sebi.gov.in.

3. Periodic Reporting on change in status or constitution³

3.1. All underwriters shall report the following change(s) to SEBI on a half-yearly basis within 15 days of expiry of the half-year, commencing from the half-year ended September 30, 2011 :

- i. Amalgamation, demerger, consolidation or any other kind of corporate restructuring falling within the scope of section 230 of the Companies Act, 2013 or the corresponding provision of any other law for the time being in force
- ii. Change in Director, including managing director/ whole-time director
- iii. In case of a partnership firm any change in partners not amounting to dissolution of the firm
- iv. Change in shareholding not resulting in change in control

If there is no change during the relevant half-year, it shall be indicated in the report.

3.2. The above report shall be submitted in electronic form only to e-mail id uw@sebi.gov.in, with the subject line "Report on change of status or constitution submitted by aaa for the half-year ended xxx yyyy" where aaa represents the name of underwriter, xxx represents the month at the end of the half-year and yyyy represents the year. For example, if an underwriter ABC Limited submits the aforesaid report for the half-year ended September 2011, the e-mail sent to uw@sebi.gov.in shall bear the subject line "Report on change of status or constitution submitted by ABC Limited for the half-year ended September 2011".

4. Revised procedure for seeking prior approval for change in control through single window⁴

4.1. With a view to expedite the process of granting prior approval, it has been decided to adopt a 'single window clearance at SEBI', for the Stock Brokers and Sub-brokers, Merchant Bankers, Debenture Trustees, Registrar to an

³ SEBI Circular No. CIR/MIRSD/6/2011 dated June 17, 2011

⁴ SEBI Circular No. CIR/MIRSD/14/2011 dated August 02, 2011



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Issue and Share Transfer Agents, Underwriters, Depository Participants, Bankers to an Issue and Credit Rating Agencies, in case of their having multiple registrations with SEBI. Accordingly, in consultation with the major stock exchanges and market participants, it has been decided to adopt the following procedure;

- 4.1.1. In case an applicant holds multiple registrations with SEBI, it shall make only one application to SEBI accompanied by the following information about itself, the acquirer and the directors/partners of the acquirer;
 - Whether any application was made in the past to SEBI seeking registration in any capacity but it was not granted? If yes, details thereof.
 - Whether any action has been initiated / taken under SCRA/SEBI Act or rules and regulations made thereunder? If yes, status thereof along with corrective action taken to avoid such violations in the future. The acquirer shall also confirm that it shall honour all past liabilities / obligations of the applicant, if any.
 - Whether any investor complaint is pending? If yes, steps taken and confirmation that the acquirer shall resolve the same.
 - Details of litigation, if any.
 - That all the fees due to SEBI have been paid.
 - That there will not be any change in the Board of Directors of incumbent, till the time prior approval is granted.
 - That the incumbent shall inform all its existing investors / clients in order to enable them to take informed decision regarding their continuance or otherwise with the entity with new management.
- 4.1.2. Further, in case the incumbent is a registered stock broker and / or depository participant, in addition to the above, it shall obtain approval / NOC from all the Stock Exchanges / Depositories, where the incumbent is a member / Depository Participant and forward a self-attested copy of the same to SEBI.
- 4.1.3. The application shall be addressed to "Chief General Manager, MIRSD, SEBI".
- 4.1.4. The prior approval granted by SEBI shall be valid for a period of 180 days from the date of communication.



5. Online Registration Mechanism for Securities Market Intermediaries⁵

- 5.1. SEBI has decided to operationalize SEBI Intermediary Portal (<https://siportal.sebi.gov.in>) for the intermediaries to submit all the registration applications online. The SEBI Intermediary Portal shall include online application for registration, processing of application, grant of final registration, application for surrender / cancellation, submission of periodical reports, requests for change of name/address/ other details, etc., Link for SEBI Intermediary Portal is also available on SEBI website - www.sebi.gov.in.
- 5.2. SEBI Intermediary Portal is made operational for following intermediaries:
- 5.2.1. Stock Brokers
 - 5.2.2. Sub-brokers
 - 5.2.3. Merchant Bankers (MB)
 - 5.2.4. Underwriters (UW)
 - 5.2.5. Registrar to an Issue and Share Transfer Agents (RTA)
 - 5.2.6. Debenture Trustees (DT)
 - 5.2.7. Bankers To An Issue (BTI)
 - 5.2.8. Credit Rating Agency (CRA)
 - 5.2.9. Depository Participants (DP)
- 5.3. Henceforth, all applications for registration/ surrender/other requests shall be made through SEBI Intermediary Portal only. The applications in respect of stock brokers/ sub-broker and depository participants shall continue to be made through the stock exchanges and depositories respectively.
- 5.4. The applicants will be separately required to submit relevant documents viz. declarations/ undertakings required as a part of application forms prescribed in relevant regulations, in physical form, only for records without impacting the online processing of applications for registration.
- 5.5. Where applications are made through the stock exchanges / depositories, the hard copy of the applications made by their members shall be preserved by them and shall be made available to SEBI, as and when called for.
- 5.6. In case of any queries and clarifications with regard to the SEBI Intermediary Portal, intermediaries may contact on 022-26449364 or may write at portalhelp@sebi.gov.in.

⁵ SEBI Circular No. SEBI/HO/MIRSD/MIRSD1/CIR/P/2017/38 dated May 02, 2017



6. Grievance Redressal Mechanism⁶

- 6.1. All registered Merchant Bankers, registered Registrars to an Issue/ Share Transfer Agents, registered Debenture Trustees, registered Bankers to Issue and registered Underwriters are advised to designate an e-mail ID of the grievance redressal division/compliance officer exclusively for the purpose of registering complaints by investors.
- 6.2. The above entities are also advised to display the email ID and other relevant details prominently on their websites and in the various materials/pamphlets/advertisement campaign initiated by them for creating investor awareness.
- 6.3. As an additional measure and for information of all investors who deal/ invest/ transact in the market, it has now been decided that offices of intermediaries shall prominently display basic information, as provided in Annexure II, about the grievance redressal mechanism available to investors.

ANNEXURE II

FOR OTHER INTERMEDIARIES

Dear Investor, *In case of any grievance / complaint against the Intermediary:*

- Please contact Compliance Officer of the Intermediary (Name and Address) / email-id (xxx.@email.com) and Phone No. - 91-XXXXXXXXXX.
- You may also approach CEO / Partner / Proprietor (Name) / email-id (xxx.@email.com) and Phone No. - 91-XXXXXXXXXX.
- If not satisfied with the response of the intermediary you can lodge your grievances with SEBI at <http://scores.gov.in> or you may also write to any of the offices of SEBI. For any queries, feedback or assistance, please contact SEBI Office on Toll Free Helpline at 1800 22 7575 / 1800 266 7575.

- 6.4. All newly listed companies and SEBI registered intermediaries (excluding Stock Brokers, Sub-Brokers and Depository Participants) are hereby advised to send their details as per Form-A and Form-B annexed to this

⁶ SEBI Circulars No. MIRSD/DPS III/Cir-01/07 dated January 22, 2007, CIR/MIRSD/17/2011 dated August 24, 2011, CIR/MIRSD/3/2014 dated August 28, 2014, CIR/OIAE/1/2014 dated December 18, 2014 and SEBI/HO/OIAE/IGRD/CIR/P/2018/58 dated March 26, 2018.



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Circular (as Annexure III and Annexure IV respectively), to SEBI in hard copy and by email to scores@sebi.gov.in and obtain SCORES user id and password immediately. The email id to be furnished by the listed company / SEBI registered intermediary for receiving SCORES user id and password from SEBI has to be preferably a corporate email id and necessarily a permanent one. Failure by any listed company or SEBI registered intermediary to obtain the SCORES user ID and password would not only be deemed as non-redressal of investor grievances but also indicate willful avoidance of the same.

ANNEXURE III

FORM - A

AUTHENTICATION FOR SCORES BY LISTED COMPANIES

1. Name of the Company:
2. PAN of Company :
3. CIN of Company:
4. Date of incorporation of company:
5. Registered Office address of company:
6. Complaints processed through: RTI/STA Company
7. Please indicate the following:

Name of the RTI/STA (if through RTI/STA):

Whether complaints will be passed to RTI/STA by the company
 directly to the RTI/STA through SCORES

8. Stock exchange on which company is listed/ proposed to be listed:
9. The details of the concerned person of the company to whom User id and password will be sent:



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Name :

Designation:

Email id : (Corporate and permanent email id)

Mobile no.

Telephone No. :

Fax No. :

10. Name, PAN and address of the promoters and directors of the company:

Place:

Signature of Compliance Officer of company:

Date:

Name:

Designation:

Company Seal:

Note: A scanned copy to be sent by email to scores@sebi.gov.in followed by hard copy to Office of the Investor Assistance and Education, Securities and Exchange Board of India, Plot No. C4-A, 'G' Block, Bandra Kurla Complex, Mumbai - 400 051

Important: Please note that SCORES has the provision for updating company details by the company itself. Any field (except the e-mail id which is permanent) such as registered office address, name of the RTI/STA, name/details of the compliance officer, telephone numbers, etc should be changed by the company immediately when warranted.

ANNEXURE IV

FORM - B

AUTHENTICATION FOR SCORES BY SEBI REGISTERED INTERMEDIARIES

1. Name of the registered intermediary :
2. Nature of registered intermediary:
3. SEBI registration no.
4. PAN of registered intermediary :
5. Date of SEBI registration of intermediary:



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6. SEBI registration valid upto:
7. Office address of the intermediary:
8. The details of the concerned person of the intermediary to whom User id and password will be sent:
Name :
Designation:
Email id : (corporate and permanent email id)
Mobile no.
Telephone No. :
Fax No. :
Place: Signature:
Date: Name:
Designation:
Seal:

Note: A scanned copy to be sent by email to scores@sebi.gov.in followed by hard copy to the concerned Department/Division of Securities and Exchange Board of India, Plot No. C4-A, 'G' Block, Bandra Kurla Complex, Mumbai - 400 051

Important: Please note that SCORES has the provision for updating intermediary's details by the intermediary itself. Any field (except the e-mail id which is permanent) such as registered office address, name/details of the compliance officer, telephone numbers, etc should be changed by the intermediary immediately when warranted.

- 6.5. The registered intermediaries shall submit the details in hard copy (Form-B) to the Department/Division of SEBI which has granted them registration to operate in the securities market. SCORES user id and password of an intermediary shall be created only after receiving approval from the concerned Department/Division of SEBI.
- 6.6. In case of complaints against listed companies, the same can be processed by companies in-house or through its Registrar to Issue and Share Transfer Agent (RTI/STA). In case the complaints are processed by the RTI/STA on behalf of the listed company, the company should indicate in the enclosed Form-A whether they require the facility to forward complaints to the RTI/STA, so that the ATRs can be uploaded by them. In such cases, the name of the RTI/STA, the name of the Compliance Officer of the listed company and email id of the listed company should be furnished, so that the user id and password can be provided accordingly. In case the complaints are processed by the RTI/STA on behalf of the listed company, any failure on the part of the RTI/STA to redress the complaints or failure



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to update ATR in SCORES, will be treated as failure of the listed company to furnish information to SEBI and non redressal of investor complaints by the listed company.

- 6.7. Intermediaries can view the complaints in the SCORES system by logging in with their user id and password which will be communicated separately.
- 6.8. A daily alert on pending complaints will be forwarded at the e-mail ID registered with SEBI for regulatory communications.
- 6.9. All listed companies and SEBI registered intermediaries shall review their investors grievances redressal mechanism so as to further strengthen it and correct the existing shortcomings, if any. The listed companies and SEBI registered intermediaries to whom complaints are forwarded through SCORES, shall take immediate efforts on receipt of a complaint, for its resolution, within thirty days. The listed companies and SEBI registered intermediaries shall keep the complainant duly informed of the action taken thereon.
- 6.10. The listed companies and SEBI registered intermediaries shall update the ATR along with supporting documents, if any, electronically in SCORES. ATR in physical form need not be sent to SEBI. The proof of dispatch of the reply of the listed company / SEBI registered intermediary to the concerned investor should also be uploaded in SCORES and preserved by the listed company / SEBI registered intermediary, for future reference.
- 6.11. Action taken by the listed companies and SEBI registered intermediaries will not be considered as complete if the relevant details/ supporting documents are not uploaded in SCORES and consequently, the complaints will be treated as pending.
- 6.12. A complaint shall be treated as resolved/dispensed/closed only when SEBI disposes/closes the complaint in SCORES. Hence, mere filing of ATR by a listed company or SEBI registered intermediary with respect to a complaint will not mean that the complaint is not pending against them.
- 6.13. Failure by listed companies and SEBI registered intermediaries to file ATR under SCORES within thirty days of date of receipt of the grievance shall not only be treated as failure to furnish information to SEBI but shall also be deemed to constitute non-redressal of investor grievance.



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- 6.14. The Board of Directors of the listed company or the Board of Directors/ Proprietor/Partner of the registered intermediary shall be responsible for ensuring compliance with the provisions of this Circular.
- 6.15. In order to resolve the investor grievances faster, the investors may approach the concerned listed company or registered intermediary first with all the requisite details to redress the complaints. In case, the listed company or registered intermediary fails to redress the complaint to the investor's satisfaction, the investor may file a complaint in SCORES.
- 6.16. At present following types of complaints are not dealt through SCORES:
- 6.16.1. Complaints against the companies which are unlisted/delisted, in dissemination board of Stock Exchanges,
- 6.16.2. Complaints those are sub-judice i.e. relating to cases which are under consideration by court of law, quasi-judicial proceedings etc.
- 6.16.3. Complaints falling under the purview of other regulatory bodies viz. RBI, IRDAI, PFRDA, CCI, etc., or under the purview of other ministries viz., MCA, etc.
- 6.16.4. Complaints against a sick company or a company where a moratorium order is passed in winding up / insolvency proceedings.
- 6.16.5. Complaints against the companies where the name of company is struck off from RoC or a vanishing company as per list published by MCA.
- 6.16.6. Suspended companies, companies under liquidation / BIFR / etc.
- 6.17. To enhance investor satisfaction on complaint redressal, SEBI has already put in place a 'Complaint Review facility' under SCORES wherein an investor if unsatisfied with the redressal may within 15 days from the date of closure of his complaint in SCORES opt for review of the complaint and the complaint shall be escalated
- 6.18. Effective from August 01, 2018, following procedure shall be followed for filing and redressal of investor grievances using SCORES:
- 6.18.1. Investors who wish to lodge a complaint on SCORES are requested to register themselves on www.scores.gov.in by clicking on "Register here". While filing the registration form, details like Name of the investor, PAN, Contact details, Email id, Aadhaar card number (optional), CKYC ID(optional) etc. (Annexure V) may be provided for effective communication and speedy redressal of the grievances. Upon successful registration, a unique user id and a password shall be



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communicated to the investor through an acknowledgement email / SMS.

ANNEXURE V

Details to be provided while registering on SCORES with effect from August 01, 2018:

- i. Name of the complainant*
- ii. Pan Number*
- iii. Aadhaar Number (Optional)
- iv. CKYC ID (Optional)
- v. DP id & Client Id
- vi. Postal address for communication*
- vii. Contact number - Mobile* : Landline
- viii. Email id* - For receipt of acknowledgement letter / updates of complaints on SCORES.
- ix. Bank account details - To facilitate direct credit of benefits to investor.
- x. Client id as given by Broker / Stock Exchange.

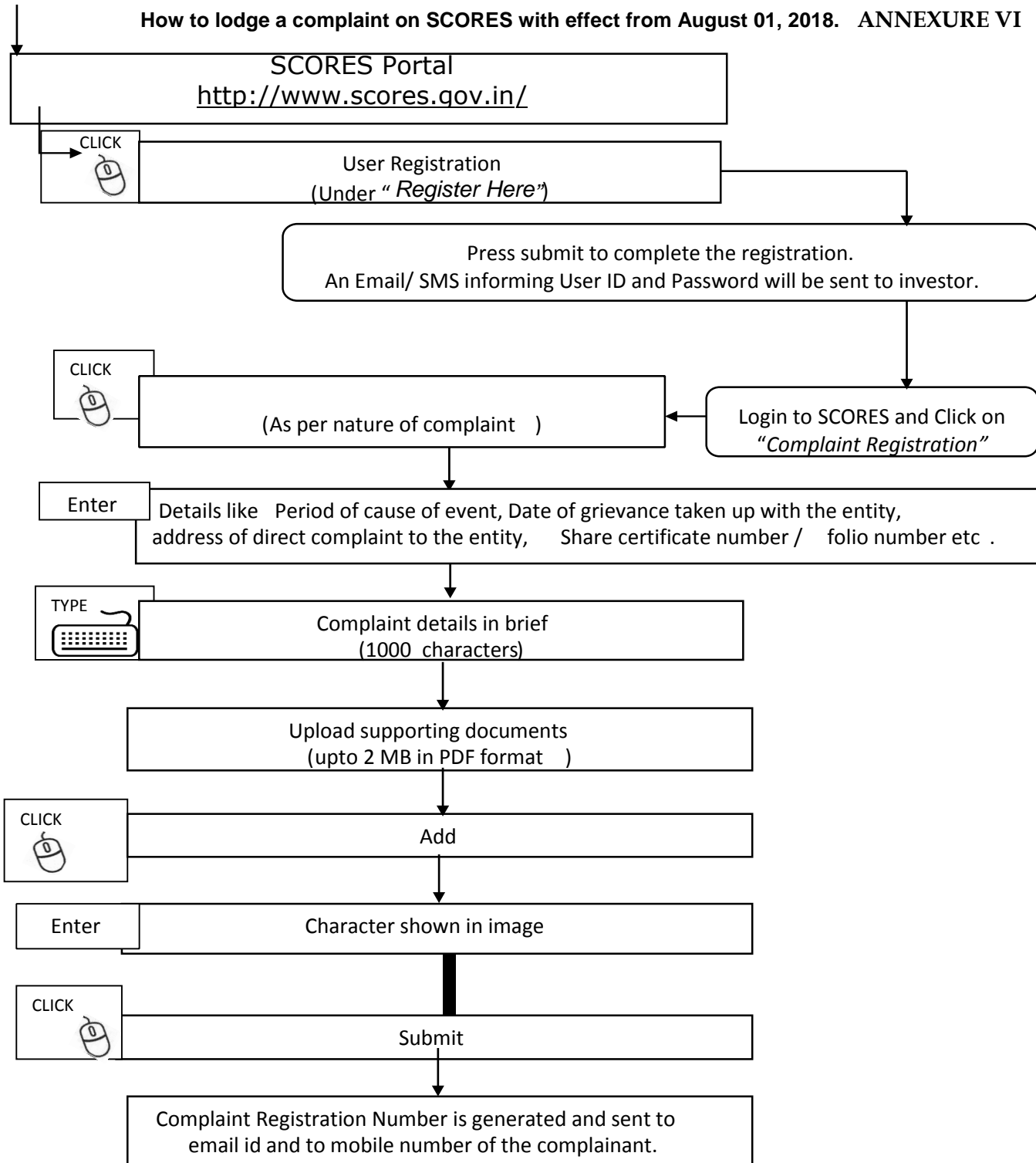
Note: * are mandatory fields.

6.18.2. An investor shall use login credentials for lodging complaint on SCORES ("Login for registered user" section). Details on how to lodge a complaint on SCORES is at Annexure VI.



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How to lodge a complaint on SCORES with effect from August 01, 2018. ANNEXURE VI





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- 6.18.3. The complainant may use SCORES to submit the grievance directly to companies / intermediaries and the complaint shall be forwarded to the entity for resolution. The entity is required to redress the grievance within 30 days, failing which the complaint shall be registered in SCORES
- 6.18.4. Presently, the limitation period for filing an arbitration reference with stock exchanges is three year. In line with the same and in order to enhance ease, speed & accuracy in redressal of investor grievance, the investor may lodge a complaint on SCORES within three years from the date of cause of complaint, where;
- 6.18.4.1. Investor has approached the listed company or registered intermediary for redressal of the complaint and,
- 6.18.4.2. The concerned listed company or registered intermediary rejected the complaint or,
- 6.18.4.3. The complainant does not receive any communication from the listed company or intermediary concerned or,
- 6.18.4.4. The complainant is not satisfied with the reply given to him or redressal action taken by the listed company or an intermediary.



CHAPTER - II- GENERAL OBLIGATIONS

7. Prevention of circulation of unauthenticated news by SEBI Registered Market Intermediaries through various modes of communication⁷

7.1. SEBI Registered Market Intermediaries are directed that:

7.1.1. Proper internal code of conduct and controls should be put in place.

7.1.2. Employees/temporary staff/voluntary workers etc. employed/working in the Offices of market intermediaries do not encourage or circulate rumours or unverified information obtained from client, industry, any trade or any other sources without verification.

7.1.3. Access to Blogs/Chat forums/Messenger sites etc. should either be restricted under supervision or access should not be allowed.

7.1.4. Logs for any usage of such Blogs/Chat forums/Messenger sites (called by any nomenclature) shall be treated as records and the same should be maintained as specified by the respective Regulations which govern the concerned intermediary.

7.1.5. Employees should be directed that any market related news received by them either in their official mail/personal mail/blog or in any other manner, should be forwarded only after the same has been seen and approved by the concerned Intermediary's Compliance Officer. If an employee fails to do so, he/she shall be deemed to have violated the various provisions contained in SEBI Act/Rules/Regulations etc. and shall be liable for action. The Compliance Officer shall also be held liable for breach of duty in this regard.

8. Guidelines on Outsourcing of Activities by Intermediaries⁸

8.1. Principles for Outsourcing

The risks associated with outsourcing may be operational risk, reputational risk, legal risk, country risk, strategic risk, exit-strategy risk,

⁷ SEBI Circulars No Cir/ ISD/1/2011 dated March 23, 2011 and Cir/ ISD/2/2011 dated March 24, 2011

⁸ SEBI Circular No. CIR/MIRSD/24/2011 dated December 15, 2011



counter party risk, concentration and systemic risk. In order to address the concerns arising from the outsourcing of activities by intermediaries based on the principles advocated by the IOSCO and the experience of Indian markets, SEBI had prepared a concept paper on outsourcing of activities related to services offered by intermediaries.

Based on the feedback received on the discussion paper and also discussion held with various intermediaries, stock exchanges and depositories, the principles for outsourcing by intermediaries have been framed (Annexure VII). These principles shall be followed by all intermediaries registered with SEBI.

ANNEXURE VII

PRINCIPLES FOR OUTSOURCING FOR INTERMEDIARIES

1. An intermediary seeking to outsource activities shall have in place a comprehensive policy to guide the assessment of whether and how those activities can be appropriately outsourced. The Board / partners (as the case may be) {hereinafter referred to as the “the Board”} of the intermediary shall have the responsibility for the outsourcing policy and related overall responsibility for activities undertaken under that policy.

1.1 The policy shall cover activities or the nature of activities that can be outsourced, the authorities who can approve outsourcing of such activities, and the selection of third party to whom it can be outsourced. For example, an activity shall not be outsourced if it would impair the supervisory authority’s right to assess, or its ability to supervise the business of the intermediary. The policy shall be based on an evaluation of risk concentrations, limits on the acceptable overall level of outsourced activities, risks arising from outsourcing multiple activities to the same entity, etc.

1.2 The Board shall mandate a regular review of outsourcing policy for such activities in the wake of changing business environment. It shall also have overall responsibility for ensuring that all ongoing outsourcing decisions taken by the intermediary and the activities undertaken by the third-party, are in keeping with its outsourcing policy.

2 The intermediary shall establish a comprehensive outsourcing risk management programme to address the outsourced activities and the relationship with the third party.

2.1 An intermediary shall make an assessment of outsourcing risk which depends on several factors, including the scope and materiality of the outsourced activity, etc. The factors that could help in considering materiality in a risk management programme include:

a. The impact of failure of a third party to adequately perform the activity on the



financial, reputational and operational performance of the intermediary and on the investors / clients;

b. Ability of the intermediary to cope up with the work, in case of non performance or failure by a third party by having suitable back-up arrangements;

c. Regulatory status of the third party, including its fitness and probity status;

d. Situations involving conflict of interest between the intermediary and the third party and the measures put in place by the intermediary to address such potential conflicts, etc.

2.2 While there shall not be any prohibition on a group entity / associate of the intermediary to act as the third party, systems shall be put in place to have an arm's length distance between the intermediary and the third party in terms of infrastructure, manpower, decision-making, record keeping, etc. for avoidance of potential conflict of interests. Necessary disclosures in this regard shall be made as part of the contractual agreement. It shall be kept in mind that the risk management practices expected to be adopted by an intermediary while outsourcing to a related party or an associate would be identical to those followed while outsourcing to an unrelated party.

2.3 The records relating to all activities outsourced shall be preserved centrally so that the same is readily accessible for review by the Board of the intermediary and / or its senior management, as and when needed. Such records shall be regularly updated and may also form part of the corporate governance review by the management of the intermediary.

2.4 Regular reviews by internal or external auditors of the outsourcing policies, risk management system and requirements of the regulator shall be mandated by the Board wherever felt necessary. The intermediary shall review the financial and operational capabilities of the third party in order to assess its ability to continue to meet its outsourcing obligations.

3 The intermediary shall ensure that outsourcing arrangements neither diminish its ability to fulfill its obligations to customers and regulators, nor impede effective supervision by the regulators.

3.1 The intermediary shall be fully liable and accountable for the activities that are being outsourced to the same extent as if the service were provided in-house.

3.2 Outsourcing arrangements shall not affect the rights of an investor or client against the intermediary in any manner. The intermediary shall be liable to the investors for the loss incurred by them due to the failure of the third party and also be responsible for redressal of the grievances received from investors arising out of activities rendered by the third party.

3.3 The facilities / premises / data that are involved in carrying out the outsourced activity by the service provider shall be deemed to be those of the registered intermediary. The intermediary itself and Regulator or the persons authorized by it shall have the right to access the same at any point of time.

3.4 Outsourcing arrangements shall not impair the ability of SEBI/SRO or auditors to exercise its regulatory responsibilities such as supervision/inspection of the intermediary.



4 The intermediary shall conduct appropriate due diligence in selecting the third party and in monitoring of its performance.

4.1 It is important that the intermediary exercises due care, skill, and diligence in the selection of the third party to ensure that the third party has the ability and capacity to undertake the provision of the service effectively.

4.2 The due diligence undertaken by an intermediary shall include assessment of:

- a. third party's resources and capabilities, including financial soundness, to perform the outsourcing work within the timelines fixed;
- b. compatibility of the practices and systems of the third party with the intermediary's requirements and objectives;
- c. market feedback of the prospective third party's business reputation and track record of their services rendered in the past;
- d. level of concentration of the outsourced arrangements with a single third party; and
- e. the environment of the foreign country where the third party is located.

5 Outsourcing relationships shall be governed by written contracts / agreements / terms and conditions (as deemed appropriate) {hereinafter referred to as "contract"} that clearly describe all material aspects of the outsourcing arrangement, including the rights, responsibilities and expectations of the parties to the contract, client confidentiality issues, termination procedures, etc.

5.1 Outsourcing arrangements shall be governed by a clearly defined and legally binding written contract between the intermediary and each of the third parties, the nature and detail of which shall be appropriate to the materiality of the outsourced activity in relation to the ongoing business of the intermediary.

5.2 Care shall be taken to ensure that the outsourcing contract:

- a. clearly defines what activities are going to be outsourced, including appropriate service and performance levels;
- b. provides for mutual rights, obligations and responsibilities of the intermediary and the third party, including indemnity by the parties;
- c. provides for the liability of the third party to the intermediary for unsatisfactory performance/ other breach of the contract
- d. provides for the continuous monitoring and assessment by the intermediary of the third party so that any necessary corrective measures can be taken up immediately, i.e., the contract shall enable the intermediary to retain an appropriate level of control over the outsourcing and the right to intervene with appropriate measures to meet legal and regulatory obligations;
- e. includes, where necessary, conditions of sub-contracting by the third-party, i.e. the contract shall enable intermediary to maintain a similar control over the risks when a third party outsources to further third parties as in the original direct outsourcing;
- f. has unambiguous confidentiality clauses to ensure protection of proprietary and customer data during the tenure of the contract and also after the expiry of the contract;



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- g. specifies the responsibilities of the third party with respect to the IT security and contingency plans, insurance cover, business continuity and disaster recovery plans, force majeure clause, etc.;
- h. provides for preservation of the documents and data by third party ;
- i. provides for the mechanisms to resolve disputes arising from implementation of the outsourcing contract;
- j. provides for termination of the contract, termination rights, transfer of information and exit strategies;
- k. addresses additional issues arising from country risks and potential obstacles in exercising oversight and management of the arrangements when intermediary outsources its activities to foreign third party. For example, the contract shall include choice-of-law provisions and agreement covenants and jurisdictional covenants that provide for adjudication of disputes between the parties under the laws of a specific jurisdiction;
- l. neither prevents nor impedes the intermediary from meeting its respective regulatory obligations, nor the regulator from exercising its regulatory powers; and
- m. provides for the intermediary and /or the regulator or the persons authorized by it to have the ability to inspect, access all books, records and information relevant to the outsourced activity with the third party.

6 The intermediary and its third parties shall establish and maintain contingency plans, including a plan for disaster recovery and periodic testing of backup facilities.

6.1 Specific contingency plans shall be separately developed for each outsourcing arrangement, as is done in individual business lines.

6.2 An intermediary shall take appropriate steps to assess and address the potential consequence of a business disruption or other problems at the third party level. Notably, it shall consider contingency plans at the third party; co-ordination of contingency plans at both the intermediary and the third party; and contingency plans of the intermediary in the event of non-performance by the third party.

6.3 To ensure business continuity, robust information technology security is a necessity. A breakdown in the IT capacity may impair the ability of the intermediary to fulfill its obligations to other market participants/clients/regulators and could undermine the privacy interests of its customers, harm the intermediary's reputation, and may ultimately impact on its overall operational risk profile. Intermediaries shall, therefore, seek to ensure that third party maintains appropriate IT security and robust disaster recovery capabilities.

6.4 Periodic tests of the critical security procedures and systems and review of the backup facilities shall be undertaken by the intermediary to confirm the adequacy of the third party's systems.

7 The intermediary shall take appropriate steps to require that third parties protect confidential information of both the intermediary and its customers from intentional or inadvertent disclosure to unauthorised persons.



7.1 An intermediary that engages in outsourcing is expected to take appropriate steps to protect its proprietary and confidential customer information and ensure that it is not misused or misappropriated.

7.2 The intermediary shall prevail upon the third party to ensure that the employees of the third party have limited access to the data handled and only on a “need to know” basis and the third party shall have adequate checks and balances to ensure the same.

7.3 In cases where the third party is providing similar services to multiple entities, the intermediary shall ensure that adequate care is taken by the third party to build safeguards for data security and confidentiality.

8 Potential risks posed where the outsourced activities of multiple intermediaries are concentrated with a limited number of third parties.

In instances, where the third party acts as an outsourcing agent for multiple intermediaries, it is the duty of the third party and the intermediary to ensure that strong safeguards are put in place so that there is no co-mingling of information/documents, records and assets.

8.2. Activities that shall not be Outsourced

The intermediaries desirous of outsourcing their activities shall not, however, outsource their core business activities and compliance functions. A few examples of core business activities may be – execution of orders and monitoring of trading activities of clients in case of stock brokers; dematerialisation of securities in case of depository participants; investment related activities in case of Mutual Funds and Portfolio Managers. Regarding Know Your Client (KYC) requirements, the intermediaries shall comply with the provisions of SEBI {KYC (Know Your Client) Registration Agency} Regulations, 2011 and Guidelines issued there under from time to time.

8.3. Other Obligations

i. **Reporting To Financial Intelligence Unit (FIU)** - The intermediaries shall be responsible for reporting of any suspicious transactions / reports to FIU or any other competent authority in respect of activities carried out by the third parties.

ii. **Need for Self Assessment of existing Outsourcing Arrangements** – In view of the changing business activities and complexities of various financial products, intermediaries shall conduct a self assessment of their existing outsourcing arrangements within a time bound plan, not later than six months from the date of issuance of this circular and bring them in line with the requirements of the guidelines/principles.



9. General Guidelines for dealing with conflicts of interest⁹

- 9.1. All intermediaries, recognised stock exchanges, recognised clearing corporations and depositories (hereinafter collectively referred to as "such entities") are presently governed by the provisions for avoidance of conflict of interest as mandated in the respective regulations read with relevant circulars issued from time to time by SEBI. On the lines of Principle 8 of the International Organisation of Securities Commissions (IOSCO) Objectives and Principles of Securities Regulations, it has been decided to put in place comprehensive guidelines to collectively cover such entities and their associated persons, for elimination of their conflict of interest, as detailed hereunder.
- 9.2. Such entities shall adhere to these guidelines for avoiding or dealing with or managing conflict of interest. They shall be responsible for educating their associated persons for compliance of these guidelines.
- 9.3. For the purpose of these guidelines "intermediaries" and "associated persons" have the same meaning as defined in Securities and Exchange Board of India(Certification of Associated Persons in the Securities Markets) Regulations, 2007.
- 9.4. Such entities and their associated persons shall,
- 9.4.1. lay down, with active involvement of senior management, policies and internal procedures to identify and avoid or to deal or manage actual or potential conflict of interest, develop an internal code of conduct governing operations and formulate standards of appropriate conduct in the performance of their activities, and ensure to communicate such policies, procedures and code to all concerned;
- 9.4.2. at all times maintain high standards of integrity in the conduct of their business;
- 9.4.3. ensure fair treatment of their clients and not discriminate amongst them;
- 9.4.4. ensure that their personal interest does not, at any time conflict with their duty to their clients and client's interest always takes primacy in their advice, investment decisions and transactions;
- 9.4.5. make appropriate disclosure to the clients of possible source or potential areas of conflict of interest which would impair their ability

⁹ SEBI Circular No. CIR/MIRSD/5/2013 dated August 27, 2013



- to render fair, objective and unbiased services;
- 9.4.6. endeavor to reduce opportunities for conflict through prescriptive measures such as through information barriers to block or hinder the flow of information from one department/ unit to another, etc.;
- 9.4.7. place appropriate restrictions on transactions in securities while handling a mandate of issuer or client in respect of such security so as to avoid any conflict;
- 9.4.8. not deal in securities while in possession of material non published information;
- 9.4.9. not to communicate the material non published information while dealing in securities on behalf of others;
- 9.4.10. not in any way contribute to manipulate the demand for or supply of securities in the market or to influence prices of securities;
- 9.4.11. not have an incentive structure that encourages sale of products not suiting the risk profile of their clients;
- 9.4.12. not share information received from clients or pertaining to them, obtained as a result of their dealings, for their personal interest;
- 9.5. The Boards of such entities shall put in place systems for implementation of this circular and provide necessary guidance enabling identification, elimination or management of conflict of interest situations. The Boards shall review the compliance of this circular periodically.
- 9.6. Such entities shall conduct assessment of their existing policies on conflict of interest in a time bound manner, not later than 6 months from the date of this circular and bring them in line with the requirements of these guidelines.
- 9.7. The said guidelines shall be in addition to the provisions, if any, contained in respective regulations/ circulars issued by the Board from time to time regarding dealing with conflict of interest, in respect of such entities.

10. Digital Mode of Payment¹⁰

- 10.1. SEBI has notified the SEBI (Payment of Fees and Mode of Payment) (Amendment) Regulations, 2017 on March 06, 2017 to enable digital mode of payment (RTGS/NEFT/IMPS etc.) of fees/penalties/remittance/other payments etc.

¹⁰ SEBI Circular No. SEBI/HO/GSD/T&A/CIR/P/2017/42 dated May 16, 2017



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10.2. Pursuant to above, SEBI has been receiving direct credit of amounts from various intermediaries / other entities.

10.3. In order to identify and account such direct credit in the SEBI account, it has been decided that the various intermediaries / other entities shall provide the information as mentioned in Annexure -VIII to SEBI once the payment is made.

ANNEXURE VIII

Date	Department of SEBI	Name of Intermediary/ Other Entities	Type of Intermediary	SEBI Registration Number (if any)	PAN	Amount (in Rs.)	Purpose of Payment (including the period for which payment was made e.g. quarterly, annually)	Bank name and Account number from which payment is remitted	UTR No
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10.4. The above information should be emailed to the respective department(s) as well as to Treasury & Accounts division at tad@sebi.gov.in.

11. Intermediaries in IFSC¹¹

11.1. Clause 8 of SEBI IFSC Guidelines which specifies that any recognised entity or entities desirous of operating in IFSC as an intermediary, may form a company to provide such financial services relating to securities market has been amended as follows:

"8. (1) Any SEBI-registered intermediary (except trading member or clearing member) or its international associates in collaboration with such SEBI-registered intermediary may provide financial services relating to securities market, in IFSC, without forming a separate company, subject to the prior approval of the Board.

¹¹ SEBI Circulars No. SEBI/HO/CIR/P/2017/85 dated July 27, 2017 and SEBI/HO/MRD/DSA/CIR/P/2017/117 dated October 17, 2017



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Schedule I

List of Circulars incorporated in Master Circular

Footnote no.	Circular No. and Date	Subject
1	RUW Circular No. 1 (2002-2003) dated September 23, 2002	Conditions for granting registration where a connected persons has been granted registration
2	MIRSD/ DPSIII/ Cir-21/ 08 dated July 07, 2008	Designated e-mail ID for regulatory communication with SEBI
3	CIR/MIRSD/6/2011 dated June 17, 2011	Periodical report- Grant of prior approval to underwriters
4	CIR/MIRSD/14/2011 dated August 02, 2011	Revised procedure for seeking prior approval for change in control through single window
5	SEBI Circular No. SEBI/HO/MIRSD/MIRSD1/CIR/P/2017/38 dated May 02, 2017	Online Registration Mechanism for Securities Market Intermediaries
6	MIRSD/DPS III/Cir-01/07 dated January 22, 2007,	Exclusive e-mail ID for redressal of Investor Complaints
	CIR/MIRSD/17/2011 dated August 24, 2011,	Processing of Investor Complaints in SEBI Complaints Redress System (SCORES)
	CIR/MIRSD/3/2014 dated August 28, 2014	Information regarding Grievance Redressal Mechanism
	CIR/OIAE/1/2014 dated December 18, 2014	Redressal of investor grievances through SEBI Complaints Redress System (SCORES) platform



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	SEBI/HO/OIAE/IGRD/CIR/P/2018/58 dated March 26, 2018	Investor grievance redress mechanism - new policy measures
7	Cir/ ISD/1/2011 dated March 23, 2011	Unauthenticated news circulated by SEBI Registered Market Intermediaries through various modes of communication
	Cir/ ISD/2/2011 dated March 24, 2011	Addendum to Circular no. Cir/ISD/1/2011 dated March 23, 2011
8	CIR/MIRSD/24/2011 dated December 15, 2011	Guidelines on Outsourcing of Activities by Intermediaries
9	CIR/MIRSD/5/2013 dated August 27, 2013	General Guidelines for dealing with Conflicts of Interest of Intermediaries, Recognised Stock Exchanges, Recognised Clearing Corporations, Depositories and their Associated Persons in Securities Market
10	SEBI/HO/GSD/T&A/CIR/P/2017/42 dated May 16, 2017	Digital mode of payment
11	SEBI /HO /CIR /P /2017 /85 dated July 27, 2017	Securities and Exchange Board of India (International Financial Services Centres) Guidelines, 2015 - Amendments
	SEBI /HO /MRD /DSA /CIR /P /2017 /117 dated October 17, 2017	Securities and Exchange Board of India (International Financial Services Centres) Guidelines, 2015 - Amendments