

Date: 17<sup>th</sup> September, 2019

Shri Achal Singh  
General Manager  
Foreign Portfolio Investors & Custodian Division  
Securities and Exchange Board of India  
SEBI Bhavan,  
Bandra Kurla Complex  
Mumbai – 400051

Dear Sir,

**Subject: Request for guidance on Regulation 15 of the SEBI (Custodian of Securities) Regulation, 1996 from Axis Bank Limited (IN/CUS/019) under SEBI (Informal Guidance) Scheme, 2003.**

We request you to provide guidance to the proposed structure and process flow to address the regulatory requirement to appoint a SEBI registered Custodian by the SEBI registered Portfolio Management Service Provider (herein after referred as 'PMS') in accordance with the SEBI (Custodian of Securities) Regulation, 1996.

PMS needs to appoint a custodian in following cases:

1. PMS not appointed a custodian and availing services of the brokers for settlement of trades and maintaining demat accounts with the Depository participant of their choice as value of the portfolio managed by them is under rupees five hundred crore. PMS may decide to appoint a custodian irrespective the value of the portfolio managed by them.
2. PMS may want to change its existing Custodian and appoint a new custodian.

Of-late we are receiving requests from few PMS clients to offer custodial services with enable provision of maintaining Demat accounts with another depository Participant.

Detailed structure and process is provided below:

**Proposed Structure:**

1. PMS appoints a SEBI registered custodian for the clearing and settlement of funds and securities for the trades executed by PMS at the pooled level for their underlying clients (Clients of PMS). Accordingly Bank and Demat accounts for pooling and settlement purpose will be opened and maintained by the PMS with the Custodian in the name of Portfolio managed by PMS. PMS and Custodian will sign a custodian agreement between themselves as per Custodian Regulation Clause 17.
2. For the purpose of keeping the Securities segregated in the Demat accounts of the clients of PMS, Demat accounts opened and maintained with an entity registered as Depository Participant (DP) and who may or may not be a SEBI registered Custodian, will be used by the PMS. There is no direct custody agreement between the end clients of PMS and the Custodian

- (so under Custodian Regulations Clause 17, the agreement is limited only to PMS and not to end clients of PMS).
3. The correspondence address of the Custodian will be registered in the segregated Demat accounts maintained with other DP to ensure that all the physical communication/dividend warrants sent by the issuers are received by the custodian.
  4. The clients of PMS will grant Power of Attorney to the PMS to operate their demat accounts with the DP(as mentioned in point No. 2). Further, PMS will delegate the powers conferred by the clients of PMS to the Custodian to operate Demat accounts of the clients of the PMS with other DP. This delegated POA (given by PMS to Custodian) is applied on each demat account of the end client of PMS, basis which the custodian will be permitted to operate it. Please note even if the end client demat accounts were in-house with the custodian, still the same POA needs to be applied to operate the in-house demat accounts.
  5. Common pool dividend account opened and operated by Custodian (herein after referred as 'Custodian's Bank account') will be mapped in the Demat accounts as mentioned in point number 2 above for the purpose of receipt of monetary corporate benefits. This will ensure that custodian appointed by the PMS can monitor and reconcile receipt of monetary benefits. Also, Custodian will make these funds available to PMS for investments by pooling it to the investment bank account of PMS maintained with the Custodian.
  6. The Custodian and DP will enter in to the MOU to ensure proper co-ordination and fixing the responsibility of both service provider to the PMS and its clients.

**Proposed Transaction flow:**

1. The PMS will execute trades at the pool level on T+0 day and will give instructions to the Custodian for Settlement with the Stock Exchange/ Clearing House.

**a. Settlement of purchase transactions of the securities –**

- i. The Custodian checks for cash availability in the pooled bank account (Investment Bank Account) of PMS maintained with the Custodian and confirms the trades on Stock Exchange on T+1
- ii. The Custodian will settle funds obligation on the T+1 (early pay-in)/T+2 day (final pay-in) with the Stock Exchange as per internal processes.
- iii. On T+2 day, The Custodian will transfer Securities received from stock exchange as pay-out to the end clients of PMS (either directly from custody settlement account to end client or via pool demat account of PMS maintained with custodian)

**b. Settlement of Sale transactions of the securities –**

- i. The custodian will instruct other DP to transfer securities (or via remote POA ID operations permitted by NSDL/CDSL custodian can upload auto. instructions for movement) from the segregated demat accounts of the clients of the PMS to the pooled demat account of the PMS with the custodian on T+0 day as per internal process.
- ii. Custodian will check the securities received in the pooled demat account of PMS on T+0 day. Any shortage in the securities will be alerted to PMS, and

- the custodian will ensure the trades are not confirmed if shortage not fulfilled before the specified confirmation time.
- iii. On T+1 day, the custodian will confirm the trades on Stock Exchange.
  - iv. On T+1 day, the Custodian will deliver the securities to the stock exchange under early payin.
  - v. On T+2, The Custodian will transfer funds received from Stock Exchange to the pooled Bank account of the PMS maintained with Custodian (or directly to end investors account as per internal custodian operational process).
- c. **Reconciliation of Demat and Custody holding** – Custodian will provide periodic reconciliation of the holdings in segregated demat account of the clients of PMS with other DP and the holding maintained by the custodian in its system (as per mutually agreed processes between the parties).
  - d. **Tracking of Corporate Action benefits**- Custodian will facilitate the reconciliation of the demat accounts of clients of PMS and the Custodian bank Account mapped to the demat accounts for receipt of corporate action benefits.
  - e. **Record Keeping** - Electronic Depository statements in the non-editable format will be obtained for the segregated demat account of the clients of the PMS maintained with other DP and will be kept on record by the custodian for Audit purpose.

**Guidance sought:**

We request your guidance on the following points:

1. Whether proposed structure and process flow as elaborates above for a PMS client of Custodian, is in Compliance with Regulation 15 of the SEBI (Custodian of Securities) Regulation, 1996?

We have paid Rs. 25,000.00 (Rupees Twenty Five Thousands only) towards fees required as per SEBI (Informal Guidance) Scheme, 2003. Details of payment are as followed:

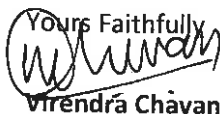
Name of the beneficiary - SECURITIES AND EXCHANGE BOARD OF INDIA

Account Number - 012210210000007

Bank Name - Bank of India Branch - Bandra Kurla Complex Branch, Bandra (East), Mumbai

IFSC - BKID0000122 MICR Number - 400013119

We will be pleased to provide any clarification, if required and we look forward to your guidance.

Yours Faithfully  


Virendra Chavan

Asst. Vice President & Compliance Officer

Custodial Services

Axis Bank Limited