

Circular No.: NSDL/POLICY/2022/084

June 18, 2022

Subject: Validation of reason codes while execution of off-market transactions.

Attention of Participants is invited to NSDL Circular No. NSDL/POLICY/2019/0041 dated July 15, 2019 regarding implementation of uniform / standardised reason codes for off-market transfers by both depositories and subsequent circulars issued by NSDL wherein additional reason codes were introduced for facilitating off market transfers.

Further, attention of Participants is invited to NSDL Circular No. NSDL/POLICY/2021/0122 dated December 15, 2021, where in order to ensure that the off-market transfer is indeed for the purported reason as declared by the account holder(s) at the time of off-market transfers, system level validation (Phase I) was implemented by Depositories for off-market transfers w.e.f. March 25, 2022.

Pursuant to the introduction of the system level validation (Phase I) and based on representations received from various stakeholders and on reviewing the compliance and regulatory aspect of the said representations, the following changes in the earlier validation process have been incorporated:

1. Addition of new reason code for transfer of constituent shares for creation of ETF Units. This new reason code will made available from June 25, 2022.

New Reason Code No.	New Reason Code Description	System validation by Depository	Security type permitted for transfer	Stamp duty applicable (Yes / No)	Manual Verification by Participant	Remarks
30	Transfer of constituent shares for creation of ETF units	Transfer with this reason code shall be permitted <u>From</u> All type of accounts <u>To</u> Account type - 'Mutual Fund' only.	All	No, please refer question no. 28 of SEBI FAQ on Stamp duty dated December 20, 2021	-	To be used for transfer of constituent shares to the Mutual Fund for creating/receiving ETF units and vice versa

2. Transfer from the Escrow Accounts are permitted back to the client accounts after the closure of the Buy Back / Tender Offer / Delisting Offer Period for the securities that are not accepted by the Issuer Company in the respective offer period indicated by the company.

3. Off-market transfers from Stock Broker Proprietary Accounts will be permitted for all reason codes excluding the following reason codes mentioned in Annexure-A:

- a. Transfer between Minor Account and Guardian Account
- b. Transfer between specified family members
- c. Transfer from Nominee/Surviving holder to beneficiary.

Changes to Annexure A are enclosed in Track Change mode.

The effective date of release of the changes mentioned at point no. 2 and 3 above would be communicated to Participants separately. The system level validation for Inter depository off-market transfers (where the target account is held with other depository) will be implemented in phase-II and date of implementation of the same shall be informed separately.

Participants are once again requested to take note of the validations elaborated in **Annexure-A** and ensure due diligence to avoid non-execution of off-market transactions.

Participants are advised to disseminate contents of this circular to their concerned clients to enable them to take utmost care to avoid non-execution of off-market instructions due to implementation of reason code validations. Participants are also advised to take steps to educate their clients for selecting appropriate reason code while executing off-market transfer. Any deviation in selecting the reason code should be brought to the notice of clients to avoid failure of off-market transfers.

Participants are further requested to take note of above and initiate suitable back-office changes.

For and on behalf of

National Securities Depository Limited

**Arockiaraj
Manager**

Enclosed: One

FORTHCOMING COMPLIANCE			
Particulars	Deadline	Manner of sending	Reference
Investor Grievance Report (Monthly)	By 10th of the following month.	Through e-PASS	Circular No. NSDL/POLICY/2015/0096 dated October 29, 2015
Annual System Audit Report (y early)	June 30	Through e-PASS	Circular No.: NSDL/POLICY/2022/068 dated May 13, 2022

Annexure A

Sr. no.	Reason Code No.	Reason Code Description	System validation by Depository	Manual Verification by Participant (if any)
1	4	Transfer to own account	<p>Transfers with this reason code would be permitted from / to all type of Beneficial Owner accounts like Resident, NRI,HUF, Body Corporates, etc. provided PAN and pattern of holding i.e. account holders is same in source and target demat account.</p> <p>E.g. if PAN in source account is 'A', 'B' & 'C', than First, Second & Third Holder PAN in target account should also be 'A', 'B' & 'C'.</p> <p>Exceptions to above include Pool Accounts & Stock Broker accounts stated at Note 1 & 2 below, where transfers with this reason code would not be permitted.</p>	In case target account is in other Depository (i.e. DP of CDSL), DP shall take Client Master List (CML) of target account for validation.
2	96	Implementation of Govt./Regulatory Direction/Orders	<p>Transfers with this reason code would be permitted from / to all type of Beneficial Owner accounts like Resident, NRI,HUF, Body Corporates, etc.</p> <p>Exception on the above include validation for Transfer from Stock Broker Client Collateral account and Stock Broker Collateral account to be permitted only to 'Stock Broker - Proprietary Account' with this reason code as per SEBI Circular on Enhanced Supervision.</p>	Participant to process these types of transfers based on copy of Govt./Regulatory Direction/Orders only.
3	97	Erroneous Transfer pertaining to Client Securities	<p>Transfers with this reason code would be permitted From / To all type of Beneficial Owner accounts like Resident, NRI,HUF, Body Corporates, etc.</p> <p>Exception on the above include validation for Transfer from Stock Broker Client Collateral account and Stock Broker Collateral account to be permitted only to 'Stock Broker - Proprietary Account' with this reason code as per SEBI Circular on Enhanced Supervision.</p>	For these type of transfers, request and supporting documents from Source DP / Client / Depository / Statutory Authority need to be collected and kept in record by Participant. 100% Concurrent Audit of documents relying upon which transfer carried out is to be done.

Sr. no.	Reason Code No.	Reason Code Description	System validation by Depository	Manual Verification by Participant (if any)
4	12	Buy-back	Transfers with this reason code would be permitted <u>From</u> all type of accounts like Resident, NRI,HUF, Body Corporates, etc. <u>To</u> only those accounts which are enabled to receive securities for buy-back as per the request and details received from concerned Issuer.	-
5	13	Open offer for Acquisition	Transfers with this reason code would be permitted <u>From</u> all type of accounts like Resident, NRI,HUF, Body Corporates, etc. <u>To</u> only those accounts which are enabled to receive securities for open offer as per the request and details received from concerned Issuer.	-
6	3	Margin returned by stock broker / PCM	Transfer with this reason code shall be permitted only <u>From</u> Stock Broker - Client Margin Trading Securities Account, Stock Broker - Client Collateral Account & PCM. <u>To</u> the concerned trading clients of the TM/CM based on the UCC data provided by Stock Exchanges. Exceptions include Pool Account (Note 1) & Stock Broker - Client Collateral Accounts, Stock Broker -Client Margin Trading Securities Account and Stock Broker - Collateral Account, where transfers with this reason code would not be permitted. <i>[Persuant to SEBI circular on margin pledge, system is implemented for margin pledge directly from client accounts to TM/CM. Thus, this reason code will be kept active till the time respective Stock Broker related Accounts gets closed].</i>	-

Sr. no.	Reason Code No.	Reason Code Description	System validation by Depository	Manual Verification by Participant (if any)
7	94	Refund of securities by IEPF Authority	Transfer with this reason code shall be permitted only From dedicated demat account of IEPF i.e. demat account Type - Investor Education Protection Fund (IEPF) To All type of accounts.	-
8	95	ESOP/Transfer to employee	Transfer with this reason code shall be permitted only From account Type - Trust account sub-type - Employee Stock Option / Employee Stock Purchase To All type of accounts	-
9	18	Conversion of Depository Receipt (DR) to underlying securities and vice versa	Transfer with this reason code shall be permitted only if either From (source) /To (target) account is opened under following account categories: DR -Depository Receipt category Overseas Depository - Underlying DR.	In case target account is in other depository (i.e. DP of CDSL), source DP shall take CML of target account for ascertaining the account category.
10	17	Dissolution/Restructuring/Winding up of Partnership Firm/Trust	Transfers with this reason code would be permitted from / to all type of Beneficial Owner accounts. Exceptions to above include Pool Accounts & Stock Broker accounts stated at Note 1 & 2 below, where transfers with this reason code would not be permitted.	For these type of transfers, supporting documents needs to be provided by transferor/ account holder(s) to its Participants.

Sr. no.	Reason Code No.	Reason Code Description	System validation by Depository	Manual Verification by Participant (if any)
11	16	Merger/ Demerger of corporate entity	<p>Transfer with this reason code shall be permitted <u>From / To following type of accounts only:</u></p> <ol style="list-style-type: none"> 1) Body Corporate 2) Bank 3) Foreign Portfolio Investor Corporate 4) Alternate Investment Fund 5) Mutual Fund 6) QIB <p>Exceptions to above include Pool Accounts & Stock Broker accounts stated at Note 1 & 2 below, where transfers with this reason code would not be permitted.</p>	For these types of transfers supporting documents needs to be provided by corporate entity to its Participant.
12	14	Redemption of Mutual Fund Units	<p>Transfer with this reason code shall be permitted <u>From</u></p> <p>All type of accounts</p> <p>Exceptions to above include Pool Accounts & Stock Broker accounts stated at Note 1 & 2 below, where transfers with this reason code would not be permitted.</p> <p><u>To</u></p> <p>Account type - 'Mutual Fund' only.</p> <p>Transfer with this reason code shall be permitted for Mutual Fund ISINs only.</p>	-
13	88	Transfer between Minor Account and Guardian Account	<p>Transfer with this reason code shall be permitted only when either</p> <p><u>From (source) or To (target) account</u> has guardian details captured.</p> <p>Transfers from 'Stock Broker - Proprietary account' would not be permitted with this reason code.</p>	-

Sr. no.	Reason Code No.	Reason Code Description	System validation by Depository	Manual Verification by Participant (if any)
14	90	Transfer between Partner and Firm, Director and Company	<p>Transfers with this reason code would be permitted from / to all type of Beneficial Owner accounts.</p> <p>Exceptions to above include:</p> <p>a) Both source and target account cannot be Corporate Account.</p> <p>b) Pool Accounts & Stock Broker accounts stated at Note 1 & 2 below, where transfers with this reason code would not be permitted.</p>	-
15	89	Transfer between specified family members	<p>Transfer with this reason code shall be permitted only</p> <p><u>From/To</u> Individual (Resident ordinary, NRI, Foreign national) and HUF accounts.</p> <p>Exceptions to above include Pool Accounts & Stock Broker accounts stated at Note 1 & 2 below, where transfers with this reason code would not be permitted.</p> <p>Transfers from 'Stock Broker - Proprietary account' would not be permitted with this reason code.</p>	<p>To be used for transfer of securities between specified family members: Participants should obtain the "relation" between the transferor and transferee & keep the same on record. Family members means relatives as given below:</p> <p>1. Spouse, 2. Father (including step-father), 3. Mother (including step-mother), 4. Son (including step-son) 5. Son's wife, 6. Daughter, 7. Daughter's husband, 8. Brother (including step-brother), 9. Sister (including step-sister) 10. Members of same HUF.</p>

Sr. no.	Reason Code No.	Reason Code Description	System validation by Depository	Manual Verification by Participant (if any)
16	15	Transposition - Between joint account of same holders	<p>Transfer with this reason code shall be permitted</p> <p>From/To all type of accounts subject to following conditions:</p> <p>1) Both Source and Target account should be Joint Account.</p> <p>2). Number of account holders in source account should match with Number of account holders in target account</p> <p>3) PANs of account holders in source account should match with PANs of account holders in target account (irrespective of sequence of account holder/PAN).</p> <p>Exceptions to above include Pool Accounts & Stock Broker accounts stated at Note 1 & 2 below, where transfers with this reason code would not be permitted.</p>	<p>To be used for transfer of securities between joint account of same holders (order of holders may be different in both accounts).</p> <p>In case target account is in other Depository (i.e. DP of CDSL), DP shall take CML of target account for verification.</p>
17	19	Trust to Beneficiaries/On HUF dissolution to Karta & Coparceners	<p>Transfers with this reason code would be permitted <u>from / to</u> all type of Beneficial Owner accounts.</p> <p>Exceptions to above include Pool Accounts & Stock Broker accounts stated at Note 1 & 2 below, where transfers with this reason code would not be permitted.</p>	<p>For these type of transfers, supporting documents/ Deeds needs to be provided by transferor/ account holder(s) to Participants.</p>

Sr. no.	Reason Code No.	Reason Code Description	System validation by Depository	Manual Verification by Participant (if any)
18	21	Transfer from Nominee/Surviving holder to beneficiary	<p>Transfers with this reason code would be permitted</p> <p>From Individual (Resident ordinary, NRI, Foreign national) accounts.</p> <p>To all types of BO accounts</p> <p>Exceptions (for both from / to) above include Pool Accounts & Stock Broker accounts stated at Note 1 & 2 below, where transfers with this reason code would not be permitted.</p> <p>Transfers from 'Stock Broker - Proprietary account' would not be permitted with this reason code.</p>	For this type of transfers, Participant to verify whether securities intended to be transferred are received in source account through transmission.
19	26	Change of nominee shareholder appointed under section 187(1) of Companies Act	<p>Transfers with this reason code would be permitted</p> <p>From / To all types of BO accounts for Equity ISINs only.</p> <p>Exceptions (for both from / to) above include Pool Accounts & Stock Broker accounts stated at Note 1 & 2 below, where transfers with this reason code would not be permitted.</p>	Copy of the Board resolution of the company effecting change of nominee shareholders (evidencing change/ appointment of nominee shareholder) to be provided by account holder to Participant.
20	27	Off-Market Swap	<p>Transfers with this reason code would be permitted</p> <p>From / To Account Types - Body Corporate, Bank, FPI, AIF, Mutual Fund, QIB only.</p> <p>Exceptions (for both from / to) above include Pool Accounts & Stock Broker accounts stated at Note 1 & 2 below, where transfers with this reason code would not be permitted.</p>	Participant to obtain Declaration from the account holder/ transferor about the swap deal and a certified copy of the swap agreement.

Sr. no.	Reason Code No.	Reason Code Description	System validation by Depository	Manual Verification by Participant (if any)
21	28	Delisting - Exit offer	<p>Transfers with this reason code would be permitted</p> <p>From All types of BO accounts.</p> <p>To Those accounts enabled to receive securities for exit offer for temporary period under account type - "Body Corporate", "Bank" as per the request and details received from concerned Issuer.</p> <p>Exceptions (for both from / to) above include Pool Accounts & Stock Broker accounts stated at Note 1 & 2 below, where transfers with this reason code would not be permitted.</p>	For these type of transfers, supporting documents like Copy of the delisting offer/ public notice (sent by the company to the shareholder, having target demat account details of the company) needs to be provided by transferor to Participants.
22	92	Gift	<p>Transfers with this reason code would be permitted from / to all type of Beneficial Owner accounts like Resident, NRI,HUF, Body Corporates, etc.</p> <p>Exceptions to above include Pool Accounts & Stock Broker accounts stated at Note 1 & 2 below, where transfers with this reason code would not be permitted.</p>	-
23	93	Donation	<p>Transfers with this reason code would be permitted from / to all type of Beneficial Owner accounts like Resident, NRI,HUF, Body Corporates, etc.</p> <p>Exceptions to above include Pool Accounts & Stock Broker accounts stated at Note 1 & 2 below, where transfers with this reason code would not be permitted.</p>	-
24	1	Off-Market Sale	<p>Transfers with this reason code would be permitted from / to all type of Beneficial Owner accounts like Resident, NRI,HUF, Body Corporates, etc.</p> <p>Exceptions to above include Pool Accounts & Stock Broker accounts stated at Note 1 & 2 below, where transfers with this reason code would not be permitted.</p>	-

Sr. no.	Reason Code No.	Reason Code Description	System validation by Depository	Manual Verification by Participant (if any)
25	23	Transfer of securities from/to account of PMS provider to/from the account of its various clients	Transfer with this reason code would be permitted if either From (source)/ To (target) account is tagged of a PMS service provider.	-
26	24	Margin to Custodian	Transfers with this reason code would be permitted From accounts tagged as 'Custodial Clients' To accounts tagged as 'Client collateral account-Custodian' This Reason code shall be enabled only for Custodian Participants.	-
27	25	Margin returned by Custodian	Transfers with this reason code would be permitted From accounts tagged as 'Client collateral account-Custodian' To accounts tagged as 'Custodial Clients' This Reason code shall be enabled only for Custodian Participants.	-
28	29	Deposit of securities with Escrow Agent and its return	Transfer with this reason code would be permitted on if either from (source) / to (target) account is an 'Escrow Account'.	
29	30	Transfer of constituent shares for creation of ETF units	Transfer with this reason code shall be permitted From All type of accounts To Account type - 'Mutual Fund' only.	-
Notes:				

Sr. no.	Reason Code No.	Reason Code Description	System validation by Depository	Manual Verification by Participant (if any)
1		Pool Account will means: CM Pool Account PMS Pool Account Client Unpaid Securities Account (CUSA). CH Account (In CDSL)		
2		Client collateral account Client Margin Trading Securities account Stock Broker – Collateral account Proprietary account Stock Broker – Client Client Securities Margin Pledge Account Client Securities under Margin Funding Account		
3		<p>* Section 187 (1) is reproduced below for reference purpose:</p> <p>187. Investments of company to be held in its own name</p> <p>“(1) All investments made or held by a company in any property, security or other asset shall be made and held by it in its own name:</p> <p>Provided that the company may hold any shares in its subsidiary company in the name of any nominee or nominees of the company, if it is necessary to do so, to ensure that the number of members of the subsidiary company is not reduced below the statutory limit”.</p>		