



CIRCULAR

CIR/MRD/DP/ 1 /2015

January 12, 2015

To,

The Depositories

Dear Sir/ Madam,

Subject: Risk Management Policy at the Depositories

1. The Depository System was reviewed by the Depository Systems Review Committee(DSRC) inter alia in the context of Principles for Financial Market Infrastructures(PFMI) laid down by the Committee on Payment and Settlement Systems (CPSS) and International Organization of Securities Commissions(IOSCO).
2. The FMI principles lay emphasis on the need to have a robust risk management framework to identify, monitor and manage various risks emanating from multiple sources to its operations. The principles also emphasize that as the Board of the FMI is ultimately responsible for managing the FMI's risks, it should establish a clear, documented risk-management framework that includes the FMI's risk-tolerance policy, assigns responsibilities and accountability for risk decisions, and addresses decision making in crises and emergencies.
3. The Depository Systems Review Committee(DSRC) has therefore recommended the following:

"There should be a Board approved policy providing for a well documented comprehensive risk management framework at both depositories. The risk management group/ committee should be active and meet periodically to continuously identify, evaluate and assess applicable risks in depository system through various sources such as investors complaints, inspections, system audit etc. and suggest measures to mitigate risk wherever applicable. A Chief Risk officer should be made responsible, accountable, accessible & answerable to the board on overall risk management issues."



4. In view of the above, the depositories are advised to establish a clear, comprehensive and well documented risk management framework which shall include the following:
 - a. an integrated and comprehensive view of risks to the depository including those emanating from participants, participants' clients and third parties to whom activities are outsourced etc.;
 - b. list out all relevant risks, including technological, legal, operational, custody and general business risks and the ways and means to address the same;
 - c. the systems, policies and procedures to identify, assess, monitor and manage the risks that arise in or are borne by the depository ;
 - d. the depository's risk-tolerance policy;
 - e. responsibilities and accountability for risk decisions and decision making process in crises and emergencies.
5. The Depositories shall put in place mechanism to implement the Risk Management Framework through a Risk Management Group/ Committee which shall be headed by a Chief Risk Officer(CRO). The responsibilities of the said Committee shall include the following:
 - a. It shall meet periodically in order to continuously identify, evaluate and assess applicable risks in depository system through various sources such as investor complaints, inspections, system audit etc.;
 - b. It shall suggest measures to mitigate risk wherever applicable;
 - c. It shall monitor and assess the adequacy and effectiveness of the risk management framework and the system of internal control;
 - d. It shall review and update the risk management framework periodically.
6. The Board of the depository shall approve the Risk Management Framework. The Chief Risk Officer shall have access to the Board and shall be responsible, accountable and answerable to the board on overall risk management issues.
7. The depositories shall implement the provisions of this circular within three months from the date of this circular.
8. The Depositories are advised to:-



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- a) make amendments to the relevant bye-laws, rules and regulations for the implementation of the above decision as may be applicable / necessary; and
 - b) communicate to SEBI, the status of implementation of the provisions of this circular in the Monthly Development Report.
9. This circular is being issued in exercise of the powers conferred by Section 11 (1) of Securities and Exchange Board of India Act, 1992 and section 19 of the Depositories Act, 1996 to protect the interest of investors in securities and to promote the development of, and to regulate, the securities market.

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