

CIRCULAR

SEBI/HO/EFD1/EFD1_DRA4/P/CIR/2022/104

July 29, 2022

To

**All Recognised Stock Exchanges (except Commodity Derivatives Exchanges)
All Registered Depositories**

Dear Sir/Madam,

Sub: Framework for automated deactivation of trading and demat accounts in cases of inadequate KYCs

1. Securities and Exchange Board of India (“SEBI”) has, vide various Circulars issued from time to time, mandated that addresses form a critical part of the Know Your Client (“KYC”) procedures. Thus, every address recorded for the purpose of compliance with KYC procedure has to be accurate. An intermediary has to update the address from time to time. However, it has been observed that in some cases accurate/updated addresses of clients are not maintained. This is borne out of the fact that when SEBI issues any notices, etc. during the course of any enforcement proceedings on such addresses, the same remain unserved.
2. To ensure that the client furnishes accurate/updated details of address and to ensure that KYC details are correct, the following framework involving stock exchanges (except Commodity Derivatives Exchanges) and depositories (hereinafter collectively referred to as “the MIs”) is proposed:
 - 2.1 Where SEBI instructs MIs to serve any Show Cause Notice (“SCN”) or order issued by SEBI, the MIs shall arrange to physically deliver the same to the entity. The MIs shall forward the signed acknowledgement of its receipt by the concerned addressee or its authorized representative to SEBI within a

period of 30 working days from the date of receipt of such instructions from SEBI. If **none** of the MIs are –

- (i) able to deliver the SCN or order, as the case may be, at any of the addresses mentioned in the KYC records linked to any trading/demat account of the entity; and
- (ii) obtain a signed acknowledgement of its receipt from the entity or its authorized representative,

then all MIs shall deactivate all trading and demat accounts i.e. implement a restraint/freeze on debit and credit (*except for corporate actions*) of all trading and demat accounts of the entity based on the entity's Permanent Account Number (PAN), within 5 working days from the last unsuccessful delivery report. MIs shall send an email/SMS to the entity before deactivation. It is clarified that if one of the MIs is able to deliver the SCN or order, as the case may be, to the entity and obtain signed acknowledgement, then none of the accounts of the entity shall be deactivated. However, the MIs, through their registered intermediaries, shall ensure that the KYC records linked to all accounts held by the entity, are updated, accurate and confirm the new KYC details to the concerned KYC Registration Agency (KRA).

- 2.2 Pending pay-in and pay-out obligations and open positions may be permitted to be settled, squared off or closed out, as the case may be, while enforcing the deactivation of trading/demat accounts of such entities.
- 2.3 MIs shall ensure that they communicate the details of the deactivation along with reasons thereof to the respective registered intermediary. They shall also ensure that the reasons for the deactivation are displayed in a clear and unambiguous manner, when the entity attempts to transact using his trading/demat account.
- 2.4 Subject to the above, the MIs shall ensure that the deactivated accounts are not used for dealing in securities market in any manner whatsoever.

- 2.5 The concerned entity may place a request to the registered intermediaries with which the entity holds a trading/demat account, seeking re-activation of trading/demat accounts along with –
- (i) the correct proof of address; and,
 - (ii) signed acknowledgement of receipt of the SCN or order, as the case may be, issued by SEBI referred to in para 2.1.
- 2.6 The registered intermediary shall update the KYC records as per the extant norms and forward the copy of the signed acknowledgement of receipt of the SCN or order, as the case may be, to the concerned MII for re-activation of the trading/demat account.
- 2.7 The concerned MII shall re-activate all trading accounts/demat accounts of the entity after ensuring that –
- (i) the entity has provided a signed acknowledgement of receipt of the SCN / order passed by SEBI; and,
 - (ii) confirmation is received from the registered intermediary that the KYC records are compliant with the extant norms.
- The concerned MII shall also inform the above to all other MIIs for re-activation of trading/ demat accounts. The signed acknowledgement shall be forwarded by the registered intermediary to the MII within 2 working days from the date of its receipt from the entity and the MII shall in turn forward it to SEBI within 2 working days of its receipt.
- 2.8 The process of reactivating the accounts by the MIIs shall not exceed more than 5 working days after receipt of request from the entity along with all the documents mentioned in para 2.5.
- 2.9 The framework would also apply to joint accounts. However, before de-activating the joint accounts, MIIs shall endeavor to contact the entity through the co-holders for delivery of SCN / order simultaneously by following the same process outlined above.

- 2.10 The MIs may deviate from the provisions of this Circular in appropriate cases, where the compliance with the framework is hampered due to factors beyond the control of the entity. In such cases, the MIs shall record the reasons for deviating from the mandate of the framework and communicate the same to SEBI within 2 working days of such deviation.
- 2.11 MIs shall have a mechanism for exchange of information and coordination amongst themselves for the purpose of implementing the framework described in this Circular. MIs shall submit a consolidated report indicating status of requests forwarded by SEBI, on a monthly basis.
- 2.12 MIs shall advise their registered intermediaries to ensure updation of KYC records at regular intervals as per the extant norms. This framework shall be in addition to and not in derogation of any Circular issued by SEBI or the MIs with respect to KYC requirements or Unique Client Code norms.
- 2.13 An Illustration covering different scenarios is provided as **Annexure-A**.
3. The framework described in this Circular shall come into effect from August 31, 2022.
4. This Circular is issued in exercise of powers conferred under Section 11(1) of the Securities and Exchange Board of India Act, 1992, to protect the interests of investors in securities and to promote the development of, and to regulate the securities markets.

Yours faithfully,

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Annexure - A

Illustration:

Scenarios: Delivery failure, deactivation of accounts and reactivation of accounts.

SEBI advises the exchanges and depositories to serve the SCN on August 01, 2022. For the sake of simplicity, it is assumed that the entity has accounts with BSE, NSE, NSDL and CDSL with each account having different addresses* and that all calendar days are working days. The following table depicts the course of action that would be taken by the MIIs depending on the circumstances.

Action	BSE	NSE	NSDL	CDSL
Physical delivery of SCN	BSE makes multiple attempts on different addresses from August 1, 2022 to August 25, 2022 and the delivery at all locations becomes unsuccessful.	NSE attempts the service on August 15, 2022 and the delivery becomes unsuccessful.	NSDL attempts the service on August 16, 2022 and the delivery becomes unsuccessful.	CDSL attempts the service on August 16, 2022 and the delivery becomes unsuccessful.
Sharing of information on delivery status	The details of unsuccessful delivery shall be shared with all the other MIIs on August 25, 2022.	The details of unsuccessful delivery shall be shared with all the other MIIs on August 15, 2022.	The details of unsuccessful delivery shall be shared with all the other MIIs on August 16, 2022.	The details of unsuccessful delivery shall be shared with all the other MIIs on August 16, 2022.
Implementing freeze on debit and credit of trading/demat accounts (within 5 working days from the last unsuccessful delivery report)	Freeze shall be implemented by MIIs by August 30, 2022 as the last date of unsuccessful delivery is August 25, 2022. Before deactivation of the accounts, the MIIs shall once again reach out to the entity through email/SMS. Pursuant to the implementation of freeze, the reasons for the same shall be informed to the concerned intermediary and also displayed to the entity when an attempt is made to transact through his trading/demat account.			
Submission of updated KYC by the entity	The entity submits updated KYC and the signed acknowledgement to the registered intermediary of BSE through which it is registered, on October 01, 2022. The intermediary shall intimate the same to BSE immediately. The registered intermediary shall also confirm the updated KYC details to the concerned KRA.	NA	NA	NA

Action	BSE	NSE	NSDL	CDSL
Re-activation of demat and trading accounts (within 5 working days from the date of request by the entity)	BSE shall re-activate the accounts and inform all the other MIs within October 06, 2022 as the date of submission of request by the entity was October 01, 2022.	All the demat and trading accounts shall be re-activated within October 06, 2022.		
Forwarding of signed acknowledgement to MII within 2 working days from date of receipt by the intermediary	Signed acknowledgement shall be forwarded to BSE by the registered intermediary within October 03, 2022 as the date of receipt of signed acknowledgement by the intermediary was October 01, 2022.	NA	NA	NA
Forwarding of signed acknowledgement to SEBI within 2 working days from the date of receipt by MII	In case the signed acknowledgment is received by BSE on October 10, 2022, the same shall be forwarded to SEBI within October 12, 2022.	NA	NA	NA

*-In cases where the same address is available across the MIs, the MIs shall co-ordinate among themselves and share the information to avoid duplication of efforts.