



Central Depository Services (India) Limited

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COMMUNIQUÉ TO DEPOSITORY PARTICIPANTS

CDSL/A,I&C/DP/POLCY/2022/515

September 08, 2022

FRAMEWORK FOR FREEZING OF CLIENT'S DEMAT ACCOUNT ON NON-DELIVERY OF SCN-ORDER

The Depository Participants (DPs) are advised to refer to SEBI circular no. SEBI/HO/EFD1/EFD1_DRA4/P/CIR/2022/104 dated July 29, 2022 (Communique CDSL/OPS/DP/POLCY/2022/433 dated August 1, 2022) regarding framework for automated deactivation of trading and demat accounts with inadequate Know Your Customer (KYC) details. Copy of SEBI circular is enclosed as Annexure.

Demographic details of a client form an important aspect of KYC procedure. DPs are required to maintain updated client information including their addresses. DPs are also required to update the same with the Depository. However, in some cases, the address of demat account holder(s) are not updated. As a result, during the course of any enforcement proceedings, when SEBI issues any notices etc., on such addresses, at times, the same remains unserved.

The framework for delivery of Show Cause Notice (SCN) / Order issued by SEBI and Freezing of demat accounts in case of the SCN/ Order remains unserved is as under:

- 1) Upon receipt of instruction from SEBI to deliver any SCN / Order issued by SEBI, CDSL shall forward the same to the respective DPs via email for physical delivery to the Noticee / Addressee.
- 2) DP shall physically deliver the said SCN / Order to the Noticee / Addressee at the address(es) available with the DP.
- 3) DP shall also simultaneously email the scanned copy of the SCN / Order to the demat account holder(s).
- 4) In case of joint demat account(s), the DP shall contact the Noticee / Addressee through the joint account holders for delivery of SCN / Order simultaneously by following the same process.
- 5) DP is required to obtain signed acknowledgement of receipt of said SCN/Order from the Noticee / Addressee or its authorised representative and forward the scanned copy of the signed acknowledgement to CDSL at email id: cdsl.ews@cdslindia.com with subject "Delivery of show cause notice / order of SEBI and updation of KYC details in the Depository system" within 2 working days from receipt of acknowledgement. Further, the DP shall also send the original signed acknowledgement by courier / speed post to CDSL at Surveillance Department, Central Depository Services (India) Limited, Marathon Futurex, 'A' Wing, 25th Floor, Mafatlal Mills Compound, N. M Joshi Marg, Lower Parel (E), Mumbai - 400013, within 2 working days from receipt of acknowledgement.



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- 6) If the address of the Noticee/ Addressee is not matching with the address captured in the demat account, then DP shall update the latest KYC details of the said demat account holder(s) as per the extant norms in CDSL system and also with respective KRA based on the documents obtained from the Noticee / Addressee.
- 7) Upon updating the KYC details in the CDSL system and respective KRA, DP shall submit a confirmation along with requisite supporting KYC documents received from Noticee / Addressee via email at email id: cdsl.ews@cdslindia.com with subject "Delivery of show cause notice / order and updation of KYC details in the Depository system".
- 8) If the same Noticee / Addressee (as per PAN) is having demat account with other DPs, then the respective DP shall update the address in the KYC records as per extant norms based on intimation from CDSL.

Process to be followed where DP is not able to complete physical delivery of SCN/Order to the Noticee / Addressee or obtain acknowledgement:

- 1) DP shall inform CDSL about the non-delivery of SCN/Order to the Noticee / Addressee or failure to obtain acknowledgement within the date specified by CDSL in its communication.
- 2) CDSL shall thereafter share the information of non-delivery status with other MIs and if required, steps would be taken for deactivation of concerned demat account(s) of Noticee / Addressee within 5 working days from the last unsuccessful delivery report.
- 3) CDSL shall freeze (For Debit and Credit, except for corporate actions) such demat accounts under freeze reason 'SEBI SCN / Order Not Delivered/Acknowledged'.
- 4) If the Noticee / Addressee is a joint account holder relating to a joint demat account, then CDSL shall freeze such joint demat account also.

Steps for Reactivation of the demat account of Noticee / Addressee:

If the Noticee / Addressee subsequently approach the DP for reactivation of demat account, the below mentioned procedure shall be followed by the concerned DP:

- 1) Obtain following documents from the Noticee / Addressee:
 - (i) Copy of updated proof of address; and
 - (ii) Signed acknowledgement of receipt of SCN/ order issued by SEBI.
- 2) Update KYC records based on the updated proof of address in CDSL system and respective KRA as per extant norms.
- 3) Forward scanned copy of the signed acknowledgement along with requisite supporting KYC documents received from client to CDSL and confirmation on updation of KYC records of the Noticee/ Addressee in the Depository system and respective KRA at email id:



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COMMUNIQUÉ TO DEPOSITORY PARTICIPANTS

cdsl.ews@cdslindia.com with subject “*Delivery of show cause notice / order of SEBI and updation of KYC details in the Depository system*” within 2 working days from receipt of acknowledgement.

Further, the DP shall also send the original signed acknowledgement by courier/ speed post to CDSL at Surveillance Department, Central Depository Services (India) Limited, Marathon Futorex, ‘A’ Wing, 25th Floor, Mafatlal Mills Compound, N. M Joshi Marg, Lower Parel (E), Mumbai - 400013 within 2 working days from receipt of acknowledgement.

- 4) On receipt of above, CDSL, shall verify the signed acknowledgement and if found satisfactory, shall initiate steps for reactivation of all the demat account(s) (including joint account(s)) held within CDSL by unfreezing the demat account(s) for Debit & Credit’.
- 5) If the Noticee / Addressee holds more than one demat account with CDSL, then CDSL shall inform the other DPs with whom the other demat account(s) are held about re-activation of demat account of the Noticee/ Addressee.
- 6) Based on aforesaid intimation, the other DPs shall update the address in the KYC records as per extant norms.

The above framework as per the SEBI Circular is effective from August 31, 2022. DPs are advised to take note and comply with the above framework

Queries, if any, regarding this communiqué may be addressed to CDSL-Audit on (022) 2305 8515 / 2305 8679 or 2305 8678.

sd/-

Latha Nair
Asst. Vice President – Audit, Inspection & Compliance

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,

TVVPS Chakravarti T

General Manager

Enforcement Department – 1

chakravartit@sebi.gov.in

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.