

## **SECTION 4**

### **CLIENT ACCOUNTS**

#### **4.1 Who may open Client Accounts in the CDS**

Participants may open Client Accounts in CDS on behalf of a body corporate or a natural person, provided that in the case of the latter the individual is of or over the age of 18 years.

Provided further, only Custodian Participants shall be permitted to open and maintain Client Accounts in the CDS on behalf of non-resident bodies corporate and non-resident natural persons intending to trade in securities listed on the Multi-Currency Board of the CSE.

For the purpose of this Rule a “body corporate” shall mean a company or a corporation duly incorporated in Sri Lanka or a company, a corporation or an entity duly incorporated outside Sri Lanka or a statutory body duly incorporated under a statute. Participants shall ensure that those for whom Client Accounts are opened have the legal capacity to contract. Participants shall not open a Client Account for a body corporate/natural person who is prohibited to transact business under any law and/or regulation.

#### **4.2 Opening of Client Accounts in the CDS**

##### **A. Centralized Client Account Opening**

Applicants shall provide information as required in the form of application and CDS Operational Guidelines and Procedures (which shall be issued in the form of letters or circulars to Participants) applicable from time to time.

Any account opening application not in conformity with these Rules or CDS Operational Guidelines and Procedures shall not be processed by the CDS. The decision of the CDS in this regard shall be final.

If the CDS has reasonable grounds to suspect the authenticity/genuineness of the information provided in an application or if the application is not complete, the CDS reserves the right to reject such application, after due consideration and inquiries.

##### **B. Decentralized Client Account Opening**

The types of Client Accounts, which are to be opened in accordance with this Rule, shall be specified by the CDS from time to time. All other types of Client Accounts, which are not specified by the CDS, shall be opened in terms of Rule 4.2 (A) above.

- a) The Applicant shall provide complete and accurate information, as required in the account opening application, the CDS Operational Guidelines and Procedures applicable from time to time and any other applicable Laws, Rules and Regulations pertaining to same, to the Participant.

- b) The Participant shall open a Client Account in the CDS in accordance with the CDS Rules, CDS Operational Guidelines and Procedures applicable from time to time, and other applicable Laws, Rules and Regulations pertaining to same.

Any account opening application, which is not in conformity with these Rules, the CDS Operational Guidelines and Procedures applicable from time to time and any other applicable Laws, Rules and Regulations pertaining to same shall not be processed by the Participant.

- c) The Participant shall be responsible and held liable to the CDS for any Client Account opened in the CDS, based on incomplete and/or inaccurate information.
- d) Upon opening the Client Account in respect of an Applicant, the Participant shall forthwith submit to the CDS, a copy of the duly signed account opening application along with the required information, in the manner specified by the CDS in the CDS Operational Guidelines and Procedures applicable from time to time, for verification by the CDS.
- e) In the event, the CDS has reasonable grounds to suspect;
  - (i) that the Client Account concerned has been opened by the Participant contrary to these Rules;
  - (ii) the authenticity/genuineness of the information provided in an account opening application; or
  - (iii) that the account opening application is inaccurate and/or incomplete,

the CDS shall have the right to suspend the Client Account in terms of Rule 4.6 (a) of these Rules, until a clarification, explanation and/or further documentation (as applicable) in such regard is provided by the Participant. The Participant shall submit a written clarification, explanation and/or further documentation (as applicable) to the CDS within three (03) Market Days from the date of request for such written clarification, explanation and/or further documentation (as applicable) by the CDS.

The suspension imposed on the Client Account will be removed by the CDS, upon the Participant submitting a clarification, explanation and/or further documentation (as applicable) to the satisfaction of the CDS. In such event the Participant shall pay a 'Reinstatement Fee' as determined by the Board of Directors of the CDS from time to time, for the removal of the suspension.

If the Participant fails to submit a clarification, explanation and/or further documentation (as applicable) to the satisfaction of the CDS, the CDS shall have the right to close such Client Account in terms of Rule 4.6 (b) of these Rules, with written notice to the Participant, provided that such Client Account has no portfolio balance.

In the event the Client Account concerned has a portfolio balance, the Participant shall take necessary steps to divest the Securities held in such Client Account within Seven (07) Market Days from the date of the written notice to the Participant and notify the CDS, in writing, no sooner the Securities have been divested. Upon receiving the said notice from the

Participant, the CDS shall have the right to close such Client Account in terms of Rule 4.6 (b) of these Rules.

- (f) The Participant shall indemnify the CDS against any loss or damage incurred by the CDS pursuant to opening of a Client Account by a Participant, based on incomplete, inaccurate and/or fraudulent information/documentation.
- (g) Where a Participant fails to comply with any of the requirements stipulated in Rules 4.2 (a) to (f) above, the CDS may prohibit such Participant from opening Client Accounts in terms of this Rule.

During the period of prohibition, the CDS may require the Participant to open Client Accounts in the CDS, through the CDS in terms of Rule 4.2 (A) above, subject to a 'Processing Fee' as determined by the Board of Directors of the CDS from time to time.

#### **4.3 Multiple Client Accounts**

- a) A natural person is permitted to open and maintain more than one account in the following manner:
  - i. Accounts may be opened and maintained by a natural person through different Participants. The CDS shall assign a unique account number for such person with the participant code of the relevant Participant.
  - ii. A Natural person shall not be permitted to open and maintain more than one account with the same Participant.
- b) A body corporate is permitted to open and maintain more than one account through the same Participant or different Participants. When accounts are opened by a body corporate, the CDS shall assign a unique account number for such body corporate with the participant code of the relevant Participant

A body corporate may open and maintain more than one account with the same Participant, provided that such accounts are opened and maintained for purposes such as:

- i. if required under a Statute/CSE Rules.
- ii. segregation of portfolios.
- iii. any other similar purposes acceptable to the CDS.

Provided however, the CDS shall not recognize notice of any trust, expressed, implied or constructive in respect of such multiple Client Accounts and the CDS shall for all purposes consider that the name appearing first in the account title, as the registered owner of such account.

#### **4.4 Operation of Client Accounts**

- a) All instructions relating to a Client Account shall be given by the Account Holder to CDS only through the Participant through which such Account

Holder is registered. The CDS shall act upon such instructions without any further inquiries.

CDS shall have no obligation to act on any instructions given by a Participant if such instructions do not, in the opinion of the CDS, contain sufficient details for CDS to act on. However upon concluding so, the CDS shall, within two (2) Market Days, inform the Participant of the additional information that would be required to effect such instructions.

- b) The Participant shall be responsible and shall be held liable for communicating any incorrect or false information regarding Client Accounts to CDS.
- c) Securities held in a Client Account shall be held by the CDS for and on behalf of the Account Holder for the sole purpose of facilitating scripless transactions in Securities. The obligations and liabilities of the CDS shall be limited to the provisions of these Rules.
- d) In the event a Client Account has more than one name in the account title (other than joint accounts) the CDS shall only recognize, for the purpose of receiving instructions by the CDS, the person whose name appears first in the account title.
- e) The CDS reserves the right to rectify any erroneous or inaccurate entry made to a Client Account at any time after such error/inaccuracy is detected.
- f) When documents are returned by the CDS to Participants due to discrepancies, such documents shall be returned under cover of a 'returned document advice' specifying the reason/s for returning such documents. Participants shall collect such documents after due acknowledgement.

#### **4.5 Entries made to a Client Account**

A Client Account shall be credited with Securities in the following instances:

- a) Purchase of Securities into a Client Account as per Section 5.
- b) Dematerialization/deposit of Securities into a Client Account as per Section 7.
- c) Direct deposit of Securities by a Listed Entity on behalf of an Account Holder.
- d) Transfer of Securities into a Client Account as per Section 9 (A) or 9 (B) of these Rules.

A Client Account shall be debited with Securities in the following instances:

- a) Sale of Securities from a Client Account as per Section 5.
- b) Rematerialisation/withdrawal of Securities from a Client Account as per Section 8.

- c) Transfer of Securities as per Section 9 (A) or 9 (B) of these Rules.
- d) Upon being notified by a Listed Entity of the following instances:
  - a repurchase of shares under the Companies Act No. 07 of 2007 (the Act),
  - a minority buy-out by the Listed Entity under the Act,
  - a redemption of shares under the Act.
- e) Direct deposit of Securities by a Listed Entity on behalf of an Account Holder.

#### **4.6 Suspending/Closing a Client Account**

##### **a) Suspending a Client Account**

The CDS shall suspend dealings on a Client Account:

- i. if instructed to do so by any of the following persons/institutions:
  - The Account Holder, through the Participant.
  - A Court of Law.
  - SEC.
- ii. on receipt of a certified copy of the death certificate issued by the relevant authority pertaining to the death of an Account Holder, through the relevant Participant.
- iii. in terms of Rule 4.2 B (e) of these Rules.
- iv. in terms of Rule 11.2 of these Rules.

##### **b) Closing a Client Account**

The CDS shall close a Client Account;

- i. if instructed to do so by the Account Holder, through the Participant (after obtaining due clarifications which may be necessary).
- ii. in terms of Rule 4.2 B (e) of these Rules.
- iii. in terms of Rule 4.7 (a) (iii).
- c) In the event a Client Account is suspended /closed, the CDS shall duly inform the relevant Account Holder through the Participant regarding the suspension/closure (as applicable) of the Client Account.

#### **4.7 Non-Operative Client Accounts**

##### **a) Client Accounts without a portfolio balance**

If a Client Account without a portfolio balance was not operative for a period of three (3) years from the date of the last transaction carried out

in such Client Account,

- i. the CDS shall designate such account as a Non-Operative Client Account and send a notice to the relevant Participant informing that the account has been designated as a Non-Operative Client Account, due to the inactivity of such account.
- ii. The CDS shall not send any notices/statements to the Account Holders of Non-Operative Client Accounts.
- iii. Upon expiry of six (6) months from the date of designating such account as a Non-Operative Client Account, the CDS shall, at its discretion, close such Non-Operative Client.
- iv. In the event an Account Holder requires to activate such account, the Account Holder shall submit a fresh account opening application to the relevant Participant and conform to Know Your Client (KYC) requirements of the Financial Intelligence Unit of the Central Bank of Sri Lanka.

b) **Client Accounts having a portfolio balance**

If a Client Account having a portfolio balance was not operative for a period of three (3) years from the date of the last transaction carried out in such Client Account;

- i. The CDS shall send an initial notice to the relevant Participant informing that the CDS intends to designate the Client Account as a Non-Operative Client Account, due to the inactivity of such account.
- ii. The CDS shall send an initial notice to the relevant Participant informing that the CDS intends to designate the Client Account as a Non-Operative Client Account, due to the inactivity of such account.
- iii. Upon expiry of three (3) months from the date of the initial notice, the CDS shall designate such account as a Non-Operative Client Account.
- iv. The CDS shall not send any notices/statements to the Account Holders of Non-Operative Client Accounts.
- v. In the event an Account Holder requires to activate his/her Non-Operative Client Account, such Account Holder shall submit a fresh account opening application to the relevant Participant and conform to Know Your Client (KYC) requirements of the Financial Intelligence Unit of the Central Bank of Sri Lanka.

