

## **SECTION 3**

### **CLIENT ACCOUNTS**

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

Depository Participants may open Client Accounts in the CDS on behalf of bodies corporate or natural persons, provided that in the case of the latter, such person is not less than eighteen (18) years of age.

Provided further, that only a Custodian Bank 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 foreign currency denominated Securities listed on 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. Depository Participants shall ensure that those for whom Client Accounts are opened have the legal capacity to contract. Depository Participants shall not open a Client Account for a body corporate/natural person who is prohibited from transacting business under any law and/or regulation.

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

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

Depository Participants shall ensure that all applicants provide information as required in the account opening application form and operational guidelines and procedures issued by the CDS from time to time.

Any account opening application submitted by a Depository Participant on behalf of an applicant which is not in conformity with these Rules or the 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 incomplete, it may reject such application.

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

The types of Client Accounts that may 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 3.2 (A) above.

- (a) The Depository Participant must ensure that it obtains complete and accurate information as required in the account opening application and Applicable Requirements from the applicant.
- (b) The Depository Participant shall open a Client Account in the CDS on behalf of its client in accordance with these Rules and the Applicable Requirements.

- (c) A Depository Participant shall not process any account opening application, which is not in conformity with these Rules and the Applicable Requirements.
- (d) The Depository Participant shall be liable to the CDS for any Client Account opened in the CDS, based on incomplete and/or inaccurate information.
- (e) Upon opening the Client Account in respect of an applicant, the Depository 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 in the Applicable Requirements, for verification by the CDS.
- (f) If the CDS has reasonable grounds to suspect;
  - (i) that a Client Account has been opened by the Depository 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 may suspend the Client Account in terms of Rule 3.8 (a) of these Rules, until a clarification, explanation and/or further documentation (as applicable) is provided by the Depository Participant. The Depository Participant shall submit such written clarification, explanation and/or further documentation (as applicable) to the CDS within three (03) Market Days of a written request by the CDS.

The suspension of the Client Account will be removed by the CDS upon the receipt of a satisfactory clarification, explanation and/or further documentation (as applicable) and the payment of a reinstatement fee as determined by the CDS.

If the Depository 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 3.8 (b) of these Rules, with written notice to the Depository Participant, provided that such Client Account has no portfolio balance.

If the Client Account has a portfolio balance, the Depository 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 Depository Participant and notify the CDS, in writing, no sooner the Securities have been divested. Upon receiving the said notice from the Depository Participant, the CDS shall have the right to close such Client Account in terms of Rule 3.8 (b) of these Rules.

- (g) The Depository Participant shall indemnify the CDS against any loss or damage incurred by the CDS as a result of opening a Client Account by a Depository Participant, based on incomplete, inaccurate and/or fraudulent information/documentation.

- (h) If a Depository Participant fails to comply with any of the requirements stipulated in Rules 3.2 (B) (a) to (f) above, the CDS may prohibit such Depository Participant from opening Client Accounts in terms of this Rule.

Whilst under prohibition, the Depository Participant may open Client Accounts in the CDS, through the CDS in terms of Rule 3.2 (A) above, subject to a fine as determined by the CDS from time to time.

### **3.3 Multiple Client Accounts**

No Person may open and maintain more than one account in the CDS unless each such account is opened and maintained through different Depository Participants:

Provided, however, that bodies corporate may open and maintain more than one account through the same Depository Participant if it is required for purposes such as:

- i. compliance with requirements under law / CSE Rules.
- ii. segregation of portfolios.
- iii. any other similar purposes acceptable to the CDS.

When accounts are opened by Persons, the CDS shall assign a unique account number for such Person with the Depository Participant Code(s) of the relevant Depository Participant(s).

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.

### **3.4 Opening of Designated Accounts to facilitate Trades carried out on the CSE as ALL OR NONE (AON) by a Consortium of Investors**

A Depository Participant may open a Special CDS Account for the purpose of carrying out AON transactions by a consortium of investors provided that such consortium shall not exceed ten (10) investors.

When a Custodian Bank opens a Special CDS Account it shall provide an undertaking to the CDS Clearing House, in the format prescribed by the CDS Clearing House that it will honor all settlement obligations arising from such Special CDS Account.

### **3.5 Operation of Client Accounts**

- (a) All instructions to the CDS relating to a Client Account shall be given by the Account Holder only through the Depository Participant. The CDS shall act upon such instructions without any further inquiry.

The CDS shall have no obligation to act on any instructions given by a Depository Participant if such instructions do not, in the opinion of the CDS, contain sufficient details for the CDS to act on. However, in such an event, the CDS shall, within two (2) Market Days, inform the Depository Participant of the additional information required to give effect to such instructions.

- (b) The Depository Participant shall be responsible and shall be held liable for communicating any incorrect or false information regarding Client Accounts to the CDS.
- (c) The 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 to the Account Holder shall be limited to those provided for in these Rules.
- (d) If a Client Account has more than one name in the account title (other than joint accounts) the CDS shall only recognize the person whose name appears first in the account title for the purpose of receiving instructions.
- (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 Depository Participants due to discrepancies, they shall be returned under cover of a 'returned document advice' specifying the reason/s for return. Depository Participants shall collect such documents after due acknowledgement.

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

The CDS shall credit a Client Account with Securities in the following instances:

- (a) Purchase of Securities into a Client Account as per Section 14.
- (b) Dematerialization/deposit of Securities into a Client Account as per Section 4.
- (c) Direct deposit of Securities by a Public Listed Company on behalf of an Account Holder.
- (d) Transfer of Securities into a Client Account as per Section 6 (A) or 6 (B) of these Rules.
- (e) Pursuant to Settlement Instructions received from the CDS – Clearing House in terms of Section 14 of these Rules.
- (f) Pursuant to an Order made by Court under and in terms of Section 180 (1) of the SEC Act.

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

- (a) Sale of Securities from a Client Account as per Section 14.
- (b) Rematerialisation/withdrawal of Securities from a Client Account as per Section 5.
- (c) Transfer of Securities as per Section 6 (A) or 6 (B) of these Rules.
- (d) Upon being notified by a Listed Entity of the following events:

- a repurchase of shares under the Companies Act,
  - a minority buy-out by the Listed Entity under the Companies Act,
  - a redemption of shares under the Companies Act.
- (e) Pursuant to Settlement Instructions received from a CDS - Clearing House in terms of Section 14 of these Rules.
- (f) Pursuant to an Order made by Court under and in terms of Section 180 (1) of the SEC Act.

### **3.7 Segregation of Client Accounts**

If a Depository Participant trades on its own account such Depository Participant shall open and maintain a separate Client Account in the CDS for that purpose.

For the purposes of this Rule 'trading on its own account' shall mean a Depository Participant buying and selling of Securities on its own account.

### **3.8 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:
  - The Account Holder, through the Depository Participant;
  - A court of law; or
  - The 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 Depository Participant.
- iii. in terms of Rule 3.2 B (f).
- iv. in terms of Rule 8.2.

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

The CDS shall close a Client Account;

- i. if instructed to do so by the Account Holder, through the Depository Participant (after obtaining due clarifications wherever necessary).
  - ii. in terms of Rule 3.2 B (f).
  - iii. in terms of Rule 8.2.
- (c) If a Client Account is suspended /closed, the CDS shall duly inform the relevant Account Holder thereof through the Depository Participant.

### **3.9 Non-Operative Client Accounts**

#### **(I) Identification of Non-Operative Client Accounts**

1. A client account maintained with the CDS remaining dormant for a period of three (03) years from the date of its last transaction shall be deemed to be a 'non-operative client account' by the CDS.
2. The CDS shall generate a schedule on a monthly basis to identify non-operative client accounts maintained in the CDS.

#### **(II) Classification and Suspension of Non-Operative Client Accounts by the CDS**

1. Upon generating the schedule referred to in Rule 3.9 (I) (2) above, the CDS shall forthwith take necessary steps to classify the client accounts identified therein as non-operative client accounts and suspend dealings in such client accounts with notice to the respective Depository Participant.
2. Based on the notice issued by the CDS, Depository Participants shall notify the respective Account Holder/s of the designation of such Account Holder/s CDS Account as a Non-Operative client account and the suspension of same.
3. Depository Participants shall maintain complete and accurate records of the correspondence in relation to notifying clients of the designation of such client's CDS Account as non-operative, and all such records shall be made available to the CDS, upon request.
4. The CDS will not send any notices/statements to Account Holders of non-operative client accounts in terms of these Rules.

#### **(III) Removal of the Suspension Imposed on Non-Operative Client Accounts by the CDS**

1. If the account holder seeks to remove the suspension imposed on his/her/its client account maintained with the CDS, the Depository Participant shall conduct a fresh client due diligence on such Account Holder in accordance with the applicable KYC Requirements of the FIU of the CBSL and promptly inform the CDS of the same in accordance with the Operational Guidelines and Procedures of the CDS.
2. On receipt of confirmation by the Depository Participant as to the KYC requirements, the CDS shall forthwith remove the suspension imposed on the non-operative Client Account