

8 January 2020

TO : All Chief Executive Officers of Member Firms  
All Heads of Custody Services of Custodian Banks

**CIRCULAR NO: 03-01-2020**

Dear Sir/ Madam,

**EMPOWERING CDS PARTICIPANTS- Implementation of Decentralization**

We wish to inform you that the CDS would grant full access to all CDS participants to open local individual CDS accounts (LI) and carryout broker to broker Intra Account transfers with effect from 03 February 2020.,

The Relevant approvals with regard to the above have been granted by the Securities and Exchange Commission (SEC) and please find attached herewith (Annexure 1) the applicable rules of the CDS.

Kindly note that the training and awareness programme on decentralization which the CDS team has commenced by visiting member firms will be completed by the second week of January 2020.

However, in order to provide you with necessary technical, administrative, and procedural knowledge the CDS has scheduled a further training session commencing from 20<sup>th</sup> January 2020 to 31<sup>st</sup> January 2020 at the CSE for which the broker firm teams will be invited in groups to attend. The CDS will notify you of the allocated date and time.

We would appreciate your fullest cooperation by nominating your team together with the compliance officer to participate in the respective sessions. The following will be handed over to the respective teams.

- The respective test cases for each broker firm.
- User manual.
- Revised CDS guide line.

In order to further streamline the KYC procedure, we have enclosed a specimen format to be used for all master file changes. (Annexure 2)

We also wish to inform members firms to continue obtaining documentary evidence for "Dividend Disposal Instructions" preferably a copy of current account/savings account statement or any other suitable evidence together with the account opening document.

With effect from 3 February 2020, the processing time for both account openings and intra account transfers would be from 8.30 to 2.30.

Your cooperation in this regard is highly appreciated.

Yours faithfully,



Nalin Fonseka  
Head of Central Depository Systems



AMENDMENTS TO THE RULES OF THE CENTRAL DEPOSITORY SYSTEMS (PVT.) LTD. (CDS) TO FACILITATE THE DECENTRALIZATION OF CERTAIN FUNCTIONS OF THE CDS AND OTHER CONNECTED MATTERS

A. DECENTRALIZATION OF CLIENT ACCOUNT OPENING

1. **Amended Rule 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.*

## **2. Amended Rule 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.***

### 3. Amended Rule 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;

- if instructed to do so by the Account Holder, through the Participant (after obtaining due clarifications which may be necessary).
- **in terms of Rule 4.2 B (e) of these Rules.**
- in terms of Rule 4.7 (a) (iii).

### 4. Amendments to Rule 4.7

#### Amended Rule 4.7 a) (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.

#### Amended Rule 4.7 (b) (v)

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.