

## **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 Applications for opening Client Accounts**

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.

#### **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, when opening such accounts, recognize notice of any trust, expressed, implied or constructive 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 pursuant to new issues, rights issues, issue of shares credited as fully paid up by way of capitalization of reserves or any other additional issues, as per Section 10 or pursuant to a sub-division of shares by a Listed Entity.
- 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 pursuant to a consolidation of shares by a Listed Entity.

#### **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 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), or,
- 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 through 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 through the relevant Participant and conform to Know Your Client (KYC) requirements of the Financial Intelligence Unit of the Central Bank of Sri Lanka.