

GUIDELINES IN PURSUANCE OF THE SEBI KYC REGISTRATION AGENCY (KRA) REGULATIONS, 2011 AND FOR IN-PERSON VERIFICATION (IPV)

CIRCULAR NO. MIRSD/CIR- 26/2011, DATED 23-12-2011

Please refer to SEBI circular No. MIRSD/Cir-23/2011, dated December 2, 2011 providing you a copy of the KRA Regulations, 2011 notified on December 2, 2011. With a view to implement the Regulations effectively, the following guidelines are being issued:

1. Guidelines for Intermediaries:

- i.* After doing the initial KYC of the new clients, the intermediary shall forthwith upload the KYC information on the system of the KRA and send the KYC documents *i.e.* KYC application form and supporting documents of the clients to the KRA within 10 working days from the date of execution of documents by the client and maintain the proof of dispatch.
- ii.* In case a client's KYC documents sent by the intermediary to KRA are not complete, the KRA shall inform the same to the intermediary who shall forward the required information/documents promptly to KRA.
- iii.* For existing clients, the KYC data may be uploaded by the intermediary provided they are in conformity with details sought in the uniform KYC form prescribed *vide* SEBI circular No. MIRSD/SE/Cir-21/2011, dated October 5, 2011. While uploading these clients' data the intermediary shall ensure that there is no duplication of data in the KRA system.
- iv.* The intermediary shall carry out KYC when the client chooses to trade/invest/deal through it.
- v.* The intermediaries shall maintain electronic records of KYCs of clients and keeping physical records would not be necessary.
- vi.* The intermediary shall promptly provide KYC related information to KRA, as and when required.
- vii.* The intermediary shall have adequate internal controls to ensure the security/authenticity of data uploaded by it.

2. Guidelines for KRAs:

- i.* KRA system shall provide KYC information in data and image form to the intermediary.
- ii.* KRA shall send a letter to the client within 10 working days of the receipt of the initial/updated KYC documents from intermediary, confirming the details thereof and maintain the proof of dispatch.
- iii.* KRA(s) shall develop systems, in co-ordination with each other, to prevent duplication of entry of KYC details of a client and to ensure uniformity in formats of uploading/modification/downloading of KYC data by the intermediary.
- iv.* KRA shall maintain an audit trail of the upload /modifications /downloads made in the KYC data, by the intermediary in its system.

- v. KRA shall ensure that a comprehensive audit of its systems, controls, procedures, safeguards and security of information and documents is carried out annually by an independent auditor. The Audit Report along with the steps taken to rectify the deficiencies, if any, shall be placed before its Board of Directors. Thereafter, the KRA shall send the Action Taken Report to SEBI within 3 months.
- vi. KRA systems shall clearly indicate the status of clients falling under PAN exempt categories *viz.* investors residing in the State of Sikkim, UN entities/multilateral agencies exempt from paying taxes/filing tax returns in India.
- vii. A client can start trading/investing/dealing with the intermediary and its group/subsidiary/holding company as soon as the initial KYC is done and other necessary information is obtained while the remaining process of KRA is in progress.

3. In-Person Verification (IPV):

With regard to the requirement of 'in-person' verification (IPV), SEBI has issued guidelines to the stock brokers and depository participants (DPs). However, in line with the uniformity brought out in the KYC procedure across intermediaries, the IPV requirements for all the intermediaries have now been streamlined and harmonized, as follows:

- i. It shall be mandatory for all the intermediaries addressed in this circular to carry out IPV of their clients.
- ii. The intermediary shall ensure that the details like name of the person doing IPV, his designation, organization with his signatures and date are recorded on the KYC form at the time of IPV.
- iii. The IPV carried out by one SEBI registered intermediary can be relied upon by another intermediary.
- iv. In case of Stock brokers, their sub-brokers or Authorised Persons (appointed by the stock brokers after getting approval from the concerned Stock Exchanges in terms of SEBI Circular No. MIRSD/DR-1/Cir-16/09, dated November 6, 2009) can perform the IPV.
- v. In case of Mutual Funds, their Asset Management Companies (AMCs) and the distributors who comply with the certification process of National Institute of Securities Market (NISM) or Association of Mutual Funds (AMFI) and have undergone the process of 'Know Your Distributor (KYD)', can perform the IPV. However, in case of applications received by the mutual funds directly from the clients (*i.e.* not through any distributor), they may also rely upon the IPV performed by the scheduled commercial banks.

In view of the above provisions, the following SEBI circulars/letters pertaining to IPV stand modified accordingly:

- i. Letter No. 47/2006/ISD/SR/122539, dated April 4, 2008
- ii. Letter No. MIRSD/DPS-III/130466/2008, dated July 2, 2008
- iii. Circular No. SEBI/MIRSD/Cir. No. 02/2010, dated January 18, 2010

iv. Circular No. CIR/MIRSD/22/2011, dated October 25, 2011

4. Applicability:

The KRA system shall be applicable for all new client accounts opened from January 1, 2012. Only for the client accounts opened between Jan 1 and Jan 31, 2012, the intermediaries may upload the KYC data on the KRA system and send the relevant KYC documents to KRA, by February 15, 2012. However, for client accounts opened from February 1, 2011, the intermediaries shall continue to follow the requirement of sending the same within 10 working days as given in para 1(i) of this circular. The existing clients can continue to trade/invest/ deal with their intermediaries as per the current practice.

5. The Stock Exchanges and Depositories are directed to:

- i.* bring the provisions of this circular to the notice of their Stock Brokers and DPs, as the case may be, and also disseminate the same on their websites;
- ii.* make amendments to the relevant bye-laws, rules and regulations for the implementation of the above decision in co-ordination with one another, as considered necessary;
- iii.* monitor the compliance of this circular through half-yearly internal audits and inspections; and
- iv.* communicate to SEBI, the status of the implementation of the provisions of this circular.

6. In case of mutual funds, compliance of this circular shall be monitored by the boards of Asset Management Companies and the Trustees and in case of other intermediaries by their Board of Directors.

7. The names of KRAs would be notified separately.

8. This circular is issued in exercise of powers conferred under section 11(1) of the Securities and Exchange Board of India Act, 1992 and Regulation 17 of the SEBI (KYC (Know Your Client) Registration Agency) Regulations, 2011 to protect the interests of investors in securities and to promote the development of, and to regulate the securities markets.