

FREQUENTLY ASKED QUESTIONS ON KYC NORMS FOR THE SECURITIES MARKET

DISCLAIMER: These FAQs are prepared with a view to guide market participants on KYC norms for the securities market. For full particulars of law governing KYC norms, please refer to the PMLA and Rules framed thereunder and to the Acts / Regulations/ Guidelines / Master Circular / Circulars, etc. appearing in the Legal Framework section of SEBI website at www.sebi.gov.in.

1. What is KYC?

Know Your Client (KYC) means identifying and verifying the client's identity and the identity of the beneficial owner through documents submitted for Proof of Identity (PoI) and Proof of Address (PoA) and compliance with rules, regulations, guidelines and circulars issued by the Board or any other authority for Prevention of Money Laundering from time to time.

2. Who is considered a 'beneficial owner'?

Beneficial owner is the natural person or persons who ultimately own, control or influence a client and / or persons on whose behalf a transaction is being conducted. It also incorporates those persons who exercise ultimate effective control over a legal person or arrangement.

3. When is KYC done?

KYC is to be carried out at the time of commencement of an account based relationship. Existing clients are required to update their KYC documents from time to time.

4. Why is KYC compulsory?

The Prevention of Money Laundering Act, 2002 (PMLA) along with the Prevention of Money Laundering (Maintenance of Records) Rules, 2005 (PML Rules) are the principal laws enacted to prevent money laundering activities in India. As per PMLA and Rules framed thereunder, intermediaries in securities market are required to perform Client Due Diligence. KYC records including details submitted for account opening of the client play a crucial role in ensuring Client Due Diligence.

5. What are the benefits of KYC?

The main aim of conducting KYC is to verify the identity of clients / beneficial owners, nature and purpose of client relationships and examine the probabilities of any illegal wrongdoings. Additionally, KYC helps to make sure that all transactions are legitimate and transparent. Updating KYC details from time to time with the intermediaries, aids the investors in receiving timely information.

6. Can intermediaries seek additional KYC information?

Yes, client needs to furnish additional KYC Information as required under the law.

7. What is Part I and Part II of the account opening form (AOF)?

Client needs to fill the account opening form at the time of commencement of an account based relationship. Part I of the AOF is the KYC form in which the basic details about the client are captured.

Part II of the form pertains to the additional KYC information as may be sought separately by the financial intermediary such as asset management company, stock broker, depository participant opening the client's account.

8. Is there a uniform KYC form to be used for account opening?

Yes. KYC templates provided by Central Registry of Securitisation Asset Reconstruction and Security Interest of India (CERSAI) for individuals and for legal entities are used for capturing the KYC information. The CKYCR templates - Individual and Legal Entity provided by CERSAI is available at <https://www.ckycindia.in/ckyc/?r=download>.

9. What are the different modes of KYC verification available to clients? Clients can complete their KYC verification through physical mode / online or app based mode.**10. Is Permanent Account Number (PAN) card considered as an identity proof for the purpose of KYC?**

No. PAN is not included under the list of officially valid document for the purpose of identity under the rule 2(d) of the PML rules.

11. Is it mandatory to provide PAN details, if it is not considered as proof of identity?

Yes. PAN is the key identification number and part of KYC requirements for all transactions in the securities market.

12. Is PAN-Aadhaar seeding mandatory for transactions in securities market? No. The Indian government has made it mandatory for everyone to link their PAN to their Aadhaar, with certain exceptions for NRIs, non-citizens, those over 80, and residents of the states of Assam, Jammu and Kashmir and Meghalaya. Clients in whose case, PAN Aadhaar linkage are not found to be verified, shall be allowed to transact with the existing intermediary subject to valid PAN, however the client's KYC shall not be allowed portability in securities market.**13. A client has recently completed PAN-Aadhaar seeding. What is the next step?**

The client has to inform the respective intermediary about completion of PAN- Aadhaar seeding. The client can also update this information on the KRA portal.

14. What is the difference between masked and unmasked Aadhaar?

The only significant difference between masked Aadhaar and regular Aadhaar is the visibility of the Aadhaar number. Where masked Aadhaar has only the last 4- digits of Aadhaar visible, a regular Aadhaar will display the complete 12-digit Aadhaar number.

15. What is meant by OVD?

Officially valid documents (OVDs) are government issued documents that can be accepted as identity and address proof and defined as per Rule 2 (d) of PML Rules.

16. Which documents are acceptable as Proof of Identity (PoI) and Proof of Address (PoA)?

The following documents are acceptable as PoI and PoA:

- i. the passport;
- ii. the driving licence;
- iii. proof of possession of Aadhaar number;
- iv. the Voter's Identity Card issued by Election Commission of India;
- v. job card issued by NREGA duly signed by an officer of the State Government;
- vi. the letter issued by the National Population Register containing details of name address; or
- vii. any other document as notified by the Central Government in consultation with the Regulator.

17. Which documents are acceptable as deemed OVD for POA?

In case the document furnished by the client does not contain updated address, the following documents (or their equivalent e-documents thereof) are acceptable for the limited purpose of proof of address, provided that the client submits updated officially valid document (or their equivalent e-documents thereof) with current address within a period of three months of submitting the following documents:

- i. utility bill which is not more than two months old of any service provider (electricity, telephone, post-paid mobile phone, piped gas, water bill);
- ii. property or municipal tax receipt;
- iii. pension or family pension payment orders (PPOs) issued to retired employees by Government Departments or Public Sector Undertakings, if they contain the address;
- iv. letter of allotment of accommodation from employer issued by state or central government departments, statutory or regulatory bodies, public sector undertakings, scheduled commercial banks, financial institutions and listed companies and leave and license agreements with such employers allotting official accommodation.

18. Is the client required to update KYC records?

Yes. Clients are required to update KYC records as and when there is any change / modification in the KYC information submitted.

19. Is the client required to intimate change in name?

Yes. Client intending to change his / her name is required to submit the modification form along with the self-attested copy of the documentary proof bearing the new name.

20. If correspondence and permanent address are different, documentary proof for which address is to be submitted?

If correspondence and permanent address is different, then proof for both is to be provided. However, if a client has provided Aadhaar / Aadhaar number for identification and wants to provide a current address, which is different from the address indicated in the Aadhaar, the client may give a self-declaration to that effect to the respective intermediary.

21. What is SARAL account?

SARAL is a simplified account opening form wherein the client can submit one documentary proof of address (either residence / correspondence or permanent). It is provided for individual clients participating only in the cash segment without obtaining other facilities such as internet trading, margin trading, derivative trading and use of power of attorney.

22. Is KYC applicable to minor? What are the documents required in cases of minor's KYC?

Yes. For KYC of minor, photocopy of the School Leaving Certificate/Mark sheet issued by Higher Secondary Board/Passport of Minor/Birth Certificate/PAN/document proving address and KYC documents for guardian are to be provided.

23. Can a minor invest in securities market?

A minor needs a guardian to make investments in securities market. Further, a document proving the relationship between the minor and the guardian is to be provided.

24. Can a third party address be used as correspondence address?

Yes. A client can authorize in writing stating the relation with the third party to capture address of a third party as a correspondence address, provided that all prescribed 'Know Your Client' norms are also fulfilled for the third party.

25. Is in-person verification required to be carried out if the intermediary relies on the records of client due diligence (KYC) carried out by a third party? No. SEBI registered intermediary can rely on the in-person verification carried out by a third party, if it obtains the records or the information of the client due diligence, including in-person verification.

26. What is digital KYC?

Digital KYC means capturing live photo of the client and officially valid document or the proof of possession of Aadhaar, where offline verification cannot be carried out along with the latitude and longitude of the location where such live photo is being taken by an authorised officer of the registered intermediary as per the provisions contained in the Prevention of Money Laundering Act.

27. How does the digitized KYC process work?

In the digital KYC process, the investor's photograph, acceptance of officially valid document through technologically assisted facilities like DigiLocker, online / offline / biometric Aadhaar, video capturing in live environment, time stamping, geo- location tagging to ensure physical location being in India and liveness check is carried out. In the online KYC mode, the documents along with the wet / cropped signature are e-signed.

28. What is the online e-Sign Electronic Signature Service and whether it is a legally valid signature?

e-Sign Electronic Signature Service is an innovative initiative by allowing easy, efficient, and secure signing of electronic documents by authenticating signer using Aadhaar e-KYC services. With this service, any Aadhaar holder can digitally sign an electronic document without having to obtain a physical digital signature dongle. The Electronic Signatures facilitated through e-Sign Online Electronic Signature Service is legally valid.

29. In digital process of KYC, do we need to submit mobile number?

Yes. The mobile number should preferably be the one seeded with Aadhaar.

30. In case registered intermediary is availing penny drop facility using API of the bank, is copy of signed cancelled cheque required to be obtained from client?

If registered intermediary is availing penny drop facility using API of the bank, copy of signed cancelled cheque is not required to be obtained. However, in cases where penny drop match fails, or in cases where penny drop doesn't return joint account holder name, clients can be asked to submit proofs like copy of signed cancelled cheque.

31. If the investor's bank does not support the penny drop facility, can such details be accepted based on the copy of the signed cancelled cheque?

The registered intermediary should attempt verification of bank account details using penny drop facility in all cases. But, if the investor's bank does not provide response to the penny drop, the bank details can be accepted based on the copy of the signed cancelled cheque

32. Can a Non Resident Indian / Person of Indian Origin (NRI / PIO) transact in securities market?

Yes, subject to RBI and FEMA guidelines.

33. What are the documents to be provided for NRI / PIO?

For NRI / PIO, copy of passport / Persons of Indian Origin (PIO) Card / Overseas Citizenship of India (OCI) Card and overseas address proof are required.

34. Is it mandatory to link PAN with Aadhaar for NRIs?

As per the Income Tax Department notification, NRIs who do not have Aadhaar number are exempted from linking of PAN-Aadhaar provided they update their residential status as Non-Resident in the Income Tax portal.

35. Is PAN-Aadhaar linking exemption granted automatically to NRIs?

No. NRIs who do not have Aadhaar are exempted from linking of PAN-Aadhaar only on updating their residential status as Non-Resident in the Income Tax portal.

36. Is an NRI permitted to carry out digital KYC?

Yes. The rules for digital KYC for NRI are similar to that of domestic clients.

37. Can SEBI registered intermediary, while entering into account based relationship, rely on the records of client due diligence (KYC) carried out by a third party?

Yes, subject to compliance with provisions of sub-rule 9 (2) of Prevention of Money Laundering (Maintenance of Records) Rules, 2005.

38. What is KRA?

KRA (Know Your Client) Registration Agency is a SEBI registered intermediary to maintain KYC records of clients and provides centralization of the KYC records in the securities market. The intermediary performs the initial KYC of the client and uploads the details on the system of the KRA.

39. What is KRA validation?

KRA validation refers to the process of verifying and validating the KYC attributes of KYC records stored in the KRA.

40. What are Validated Records in the risk management framework at KRAs?

In the risk management framework, the KRAs are required to verify KYC attributes like PAN, Name, Address, mobile number and email id of the client's KYC records uploaded on their system with official databases such as Income Tax Department database on PAN, Aadhaar XML / Digi locker / M-Aadhaar). The records verified with official databases, with all the above

attributes verified (including email and mobile) with PAN-Aadhaar linked, are considered as Validated Records. If Pan-Aadhaar is not linked or if KRA could validate only one of the contact details (Email or mobile), KYC status will be considered as Verified.

41. What is portability of KYC records?

The clients whose KYC records are validated by the KRAs need not undergo the KYC process again when the client approaches another intermediary in securities market (portability of KYC records) and the intermediary can fetch the validated records from the KRA.

42. Are new clients allowed to transact in securities market, pending validation of KYC records by KRAs?

Yes. The clients can open an account with intermediaries and transact in securities market as soon as the KYC process is completed. However, clients whose KYC attributes cannot be verified by KRAs will not be allowed to transact further in the securities market until the attributes are verified.

43. How can a client find the status of his KYC and what are its implications? KRAs facilitate the clients to check their KYC status on the KRA website. The different KYC status and implications thereto are also available on the KRAs website.

44. My KYC status is shown as “validated” with one KRA. However, my KYC is not seen in another KRA? What is the reason and implication, if any?

Each KYC record is unique and tagged with a single PAN. The client whose KYC record is validated by a KRA has portability of KYC record and the client need not undergo the KYC process again when he / she approaches another intermediary in securities market.

45. Can transactions be allowed in securities market in case of existing clients, where KYC attributes are not verified?

Yes. For the existing clients with KYC On-Hold status, only due to invalid email id of the investor in KRA records, which could not be verified by the KRAs, shall be allowed to exit (sale / redemption, etc.) from existing investment in securities market after adequate due diligence by intermediaries. The client’s email shall be considered as an optional attribute.

46. How can a client find out if any intermediary has downloaded / modified his KYC record?

The client gets an intimation from the respective KRA as and when his / her KYC is downloaded / modified by any intermediary.

47. Does a client who has done his KYC with a DP need to do KYC again if he wishes to invest in mutual funds?

The clients whose KYC records are validated by the KRAs need not undergo the KYC process again when the client approaches another intermediary in securities market (portability of KYC records) and the intermediary can fetch the validated records from the KRA

48. What is the time period to redress investor grievances pertaining to KYC in SCORES?

Within 21 days from the date of receipt of the complaint.

49. What is CKYCR?

Central KYC Records Registry (CKYCR) is an initiative of the Government of India, which act as centralized repository of KYC records of all entities in the financial sector with uniform KYC norms and inter-usability of the KYC records across the sector. Once the KYC form is submitted, a unique KYC Identification Number (also known as CKYC Number) is generated and communicated to the client by SMS / Email.

50. Are registered intermediaries required to upload client's KYC records with the CKYCR?

As required under the PML Rules, registered intermediaries are required to capture the KYC information for sharing with the Central KYC Records Registry in the manner mentioned in the PML Rules and as per the KYC template finalised by CERSAI.