

## **DRAFT CIRCULAR FOR PUBLIC COMMENTS**

### **Framework for Orderly Winding Down of Critical Operations and Services of a KYC (Know Your Client) Registration Agency (KRA)**

#### **Background**

In securities market, intermediaries perform KYC requirement while on-boarding a client and establishing an account based relationship. Post completion of KYC by intermediaries, the records are uploaded electronically on the KRAs portal which acts as a repositories of KYC records and responsible for storing and retrieving the KYC documents. KRAs also perform validation of KYC information, thus making the information credible for use by other intermediaries.

In view of this significance of the KRAs in Securities Market, it is imperative that the KRAs should have a structured mechanism which will ensure continuity of services of a KRA and seamless transfer of its activities to a designated successor entity, in scenarios such as insolvency, voluntary/involuntary cessation, or regulatory revocation of KRAs.

#### **Public Comments:**

Draft circular on “**Framework for Orderly Winding Down of Critical Operations and Services of a KYC (Know Your Client) Registration Agency (KRA)**” is placed at **Annexure**. The comments/ suggestions should be submitted latest by May 20, 2025, through the following link:

<https://www.sebi.gov.in/sebiweb/publiccommentv2/PublicCommentAction.do?doPublicComments=yes>

In case of any technical issue in submitting your comment through web based public comments form, you may write to [consultationMIRSD@sebi.gov.in](mailto:consultationMIRSD@sebi.gov.in) with the subject: " Framework for Orderly Winding Down of Critical Operations and Services of a KYC (Know Your Client) Registration Agency (KRA)".

**CIRCULAR**

**SEBI/HO/MIRSD/PODFATF/P/CIR/2025/\*\***

**April \*\*, 2025**

**To,  
All KYC (Know Your Client) Registration Agencies (KRAs)**

**Dear Sir/Madam,**

**Subject: Framework for Orderly Winding Down of Critical Operations and Services of a KYC (Know Your Client) Registration Agency (KRA)**

- A. In securities market, intermediaries perform KYC requirement while on-boarding a client and establishing an account based relationship. Post completion of KYC by intermediaries, the records are uploaded electronically on the KRAs portal which acts as a repositories of KYC records and responsible for storing and retrieving the KYC documents. KRAs also perform validation of KYC information, thus making the information credible for use by other intermediaries.
- B. In view of this significance of the KRAs in Securities Market, it is imperative that the KRAs should have a structured mechanism to ensure continuity of services of a KRA and seamless transfer of its activities to a designated successor entity, in scenarios such as insolvency, voluntary/involuntary cessation, or regulatory revocation of KRAs.
- C. Based on the feedback received from the stakeholders, it has been decided that KRAs shall have a framework for orderly winding down of their critical operations and services with respect to regulation 13 of KYC (Know Your Client) Registration Agency} Regulations, 2011 which provides that *a KRA, who has been granted a certificate of registration under the Act or the regulations made there under, may make a request for such surrender to the Board, duly satisfying the Board, about the factors, as it deems fit, including but not limited to :*
- *The arrangements made by KRA for maintenance and preservation of records and other documents required to be maintained under these regulations;*
  - *Transfer of records of its clients;*
  - *The arrangements made by it for ensuring continuity of service to the clients;*
  - *Redressal of investor grievances;*
  - *Defaults or pending action, if any.*

- D. The framework to be finalised by KRAs should establish a structured mechanism for orderly winding down of critical operations and services of KRAs in scenarios such as insolvency, voluntary/involuntary cessation, or regulatory revocation. The framework should ensure continuity of services, protection of KYC data pertaining to investors, statutory and contractual payment/obligations etc. and seamless transfer to a designated successor entity. The Framework should at least comprise of the following provisions

### **1. Identification of Potential Scenarios**

The scenarios which may potentially prevent KRA from being able to provide its critical operations and services as a going concern and may lead to wind down of its critical operations and services, shall be identified. Some of the reasons for winding down of KRA can be:

- 1.1. **Voluntary:** The KRA is solvent and is able to meet all its Statutory and Contractual Payment obligations towards all creditors; however, wishes to wind down its critical operations and services and exit as a strategic or business decision.
- 1.2. **Involuntary:** The winding down of critical operations and services on involuntary basis may be due to various factors including but not limited to the following:
  - **Financial Distress:** This may include insolvency or inability to fulfil its financial obligations.
  - **Regulatory Actions:** There may be directions to a KRA to wind down its critical operations and services by SEBI or any other statutory authority under applicable laws.

### **2. Identification of Critical Operations and Services of KRAs**

- 2.1 To identify the operations and services which may be classified as critical, KRAs shall, inter alia, consider their risk profile, operations, organizational structure, financial resources, business practices, interconnectedness and interdependencies, and any other relevant factor as deemed appropriate.
- 2.2 The registration and modification of KYC records of investors through Registered Intermediaries is a core function of KRAs and shall be deemed to be critical.

### **3. Standard Operating Procedure under the framework**

- 3.1. KRA should have procedures to be followed in case any of the scenarios as mentioned at paragraphs no. 1 above, gets triggered. It should outline the manner in which the critical operations and services of the KRA to be carried out, so as not to cause any disruption to the securities markets. The same may be termed as standard operating procedure (SOP) for winding down of critical operations of KRA.

- 3.2. Considering interoperability amongst KRAs, SOP should be mutually agreed upon and duly approved by the respective KRA board.
- 3.3. The SOP should include the operational modalities relating to transfer of records, data, documents etc. in detail, duly considering interoperable and/or non-interoperable scenarios, as applicable.
- 3.4. The SOP should provide for maintenance of records inter alia, comprising details of infrastructure and premises, technological systems including back-up, outsourcing activities/ vendors/ service providers, details of key employees/staff members etc. which would require to be retained or continued.
- 3.5. The broad operational procedures to be followed in this regard are as under:

**3.5.1. Voluntary Winding Down –**

- 3.5.1.1 Proposal for voluntary winding down of a KRA should be approved by the Board of Directors of KRA.
- 3.5.1.2 KRA shall declare a trigger event and notify SEBI within the timeline as specified in standard operating procedure for seeking approval along with the action plan as detailed in previous points.
- 3.5.1.3 In-principle approval from SEBI to commence the process of winding down and other regulatory approvals, as applicable shall also be obtained.
- 3.5.1.4 KRA shall notify intermediaries, investors, creditors and other KRAs within the timeline as specified in standard operating procedure, regarding its decision to wind down voluntarily and shall also mention a sufficient notice period for such winding down.
- 3.5.1.5 Investors KYC data and data of registered intermediaries should be transferred securely from source KRA to target KRA ensuing no duplication/retention.
- 3.5.1.6 The records being handed over are to be verified and certified by an auditor as specified in standard operating procedure.
- 3.5.1.7 During transition period, no new records would be created by the source KRA. However, services such as fetch, enquiry and modifications should be allowed. Unsolicited feeds would also be sent to link registered intermediaries during such period.
- 3.5.1.8 Source and target KRA should ensure parallel operations during the migration period for seamless transition as provided in the Action Plan.

**3.5.2 Involuntary Winding down (due to factors such as financial distress, insolvency, etc)**

- 3.5.2.1 In scenario of involuntary winding down, procedure as laid down at para 3.5.1 above for voluntary winding down should be followed.
- 3.5.2.2 Appropriate directions of SEBI, if any issued at the time of approval, shall also be complied with.

**3.5.3 Involuntary winding down due to regulatory action -**

- 3.5.3.1 SEBI and any other statutory authority may direct a KRA to wind down its critical operations and services on the grounds, including but not limited to the non-compliance of either the conditions of grant of registration or renewal, wherever applicable; or any other condition under the applicable laws.
- 3.5.3.2 In such scenario, procedure as laid down at para 3.5.1 above should be followed, except for 'para 3.5.1.2', wherein such regulatory action directing to wind down the operations of KRA shall be construed as a trigger event. Case specific direction(s)/relaxation(s), if any issued by the SEBI, shall prevail over such particular stipulations of para 3.5.1.
- 3.5.3.3 Appropriate directions of SEBI, if any issued, incidental to such directions to winding down, shall also be complied with.

**4. Oversight – Winding down**

KRA to form a [Regulatory Oversight Committee (ROC)] or Board Committee who shall oversee the implementation of steps or processes involved in orderly winding down of critical operations and services and shall submit a report to SEBI after approval from the KRA board, in a manner as may be specified by SEBI, upon completion of necessary steps or processes.

**5. Obligations -**

KRAs shall ensure compliance with SEBI Act, Regulations and relevant guidelines. Further adherence to applicable laws/code such as Prevention of Money Laundering Act (PMLA), and Insolvency and Bankruptcy Code (IBC) shall also be ensured.

**6. Applicability -**

The KRA shall have the framework containing the standard operating procedure duly approved by their respective board and make it available on their websites within 90 days from the date of issuance of this circular.

7. The provisions of {KYC (Know Your Client) Registration Agency} Regulations, 2011 and various circulars and guidelines issued thereunder, shall continue to apply during the entire period of winding down of critical operations and services of KRAs. This shall be mentioned in the policy framework of KRAs. The framework shall be (i) periodically reviewed, at least once in 5 years, and (ii) published or disclosed on the website of the KRAs (excluding any confidential details).