

# SHRI KRISHNA SHARE BROKERS PVT LTD

*Members: NSE Stock Exchange and BSE Stock Exchange*

## Policy Regarding Treatment of Inactive and Dormant Client Accounts

A **Policy Regarding Treatment of Inactive and Dormant Client Accounts** for stock brokers is essential to safeguard client assets, prevent unauthorized transactions, and comply with regulatory requirements. This policy outlines how stock brokers manage and monitor accounts that show no trading activity over a specific period, ensuring that clients are protected from misuse while maintaining transparency and regulatory compliance.

### 1. Objective of the Policy

- **Client Protection:** Safeguard the interests of clients by preventing unauthorized access to inactive or dormant accounts.
- **Fraud Prevention:** Reduce the risk of fraudulent activities in accounts that have been inactive for an extended period.
- **Regulatory Compliance:** Ensure compliance with guidelines issued by SEBI, stock exchanges (NSE, BSE), and other regulatory bodies concerning the handling of dormant accounts.
- **Client Communication:** Maintain proper communication with clients to notify them about their account status and actions required to reactivate dormant accounts.

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## 2. Definition of Inactive and Dormant Accounts

### 2.1 Inactive Account

- An **inactive account** refers to a client account that has not had any trading activity for a specified period (e.g., 6 months, 12 months). The definition of inactivity may vary based on internal policies or regulatory guidelines.

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## 2.2 Dormant Account

- A **dormant account** is one that has not had any trading activity for a more extended period, typically 12 months or longer. Dormant accounts are more closely monitored to prevent misuse or unauthorized access.

Regulatory authorities or stock exchanges may set specific timeframes for defining dormant accounts, which should be followed by brokers.

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## 3. Identification of Inactive and Dormant Accounts

### 3.1 Periodic Review of Account Activity

- The brokerage firm must conduct **regular reviews** of client accounts to identify those that have been inactive or dormant based on pre-defined inactivity periods (e.g., no trading activity for 12 months).
- Accounts showing no trades, withdrawals, or deposits for the specified period should be flagged as **inactive** or **dormant**.

### 3.2 Categorization of Accounts

- Based on the period of inactivity, client accounts should be categorized as **inactive** or **dormant**, with appropriate measures applied to each category to prevent unauthorized use.
  - Maintain a **separate ledger** or database to track and monitor inactive and dormant accounts.
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## 4. Treatment of Inactive and Dormant Accounts

### 4.1 Account Restrictions

- Once an account is flagged as inactive or dormant, certain restrictions must be imposed:

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- **Trading Restrictions:** Block the account from executing any trades unless reactivated by the client.
- **Withdrawal Restrictions:** Suspend any withdrawal of funds or securities from the account without proper reactivation.
- **No New Orders:** Prevent the placement of new buy/sell orders in the dormant account.
- These restrictions help safeguard the account from unauthorized transactions while allowing the client to reactivate their account when necessary.

## 4.2 Additional Authentication

- **Enhanced Security:** When a dormant account attempts to initiate any transaction (e.g., order placement, fund withdrawal), require **additional authentication measures** to verify the identity of the account holder. These measures may include:
  - **Two-factor authentication (2FA)**
  - **Reconfirmation of personal details** such as address, contact number, or email.
  - **OTP (One-Time Password) verification** sent to the registered mobile number/email of the client.
- These security steps aim to prevent unauthorized access and protect client assets.

## 4.3 Reactivation of Dormant Accounts

- To reactivate a dormant account, the following steps must be followed:
  - **Request from Client:** The client must submit a formal request (either online or through a physical application) for reactivation.

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- **KYC Update:** Brokers may require the client to **update KYC (Know Your Customer) details** if the account has been dormant for an extended period or if any information has changed.
- **Account Verification:** Verify the client's identity by confirming registered email, mobile number, or other personal details, along with additional authentication procedures.
- **Reactivation Confirmation:** Once all verifications are complete, the account can be reactivated, and normal trading activities can resume.

## 4.4 Communication with Clients

- **Regular Notifications:** Notify clients about the inactivity or dormancy of their accounts through registered email addresses or mobile numbers. The communication should include:
  - Account inactivity status.
  - Steps to reactivate the account.
  - Information on restrictions placed on the dormant account for security purposes.
- **Periodic Reminders:** Send periodic reminders to clients whose accounts are becoming inactive or have already become dormant, informing them about the actions required for reactivation.

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## 5. Regulatory and Compliance Requirements

### 5.1 SEBI and Exchange Guidelines

- Ensure that the policy adheres to the guidelines set by SEBI and the stock exchanges, which may provide specific rules on handling inactive and dormant accounts.
- Follow the exchange requirements regarding client communication, KYC updates, and reporting on the status of dormant accounts.

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## 5.2 Record Keeping

- Maintain accurate records of all communications and actions taken concerning dormant and inactive accounts, including:
    - Notifications sent to clients.
    - Account reactivation requests and approvals.
    - Account activity and restrictions applied.
  - These records should be retained for audit and regulatory purposes.
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## 6. Fraud Detection and Risk Management

### 6.1 Monitoring Dormant Accounts

- Monitor dormant accounts for any unusual or suspicious activity. Unauthorized access or attempts to execute transactions in dormant accounts should trigger **alerts** for further investigation by the compliance team.
- Ensure that dormant accounts are subjected to **enhanced fraud detection mechanisms**, including close monitoring of login attempts, IP address changes, or unusual access patterns.

### 6.2 Investigation and Reporting

- In the event of suspicious activity, the brokerage firm should conduct an **immediate investigation** and take appropriate action, including blocking the account and reporting to regulatory authorities if necessary.
  - **Reporting Mechanism:** Any instances of unauthorized transactions or fraud attempts should be promptly reported to SEBI, exchanges, or relevant regulators, as required by law.
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## 7. Closure of Dormant Accounts

- If an account remains dormant for an extended period without reactivation, the broker may consider closing the account following due process.
  - **Notification to Client:** Notify the client well in advance of the proposed account closure, providing a timeline for the client to reactivate the account or withdraw funds.
  - **Final Action:** After the stipulated period, if the client does not respond or reactivate the account, initiate the account closure process and transfer any remaining funds or securities to the client's registered account or bank.
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## 8. Client Data Privacy and Security

- Ensure that client data, including personal information, account details, and transaction history, is securely stored and protected, even for inactive or dormant accounts.
  - **Data Protection Policies:** Comply with relevant data protection laws and regulations to ensure the security of client information and prevent unauthorized access to dormant accounts.
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## 9. Review and Updates to the Policy

- The policy regarding inactive and dormant client accounts should be **periodically reviewed** and updated in line with changing regulatory requirements, market practices, and technological advancements.
  - Ensure that any updates to the policy are communicated to both clients and employees to maintain transparency and regulatory compliance.
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