



REGULATORY

Regulatory Compliance Understanding CDSL's KYC Validation Circular of May 2026

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I. Background and Regulatory Context

On 14 May 2026, Central Depository Services (India) Limited (“CDSL”) issued Circular No. CDSL/OPS/DP/POLCY/2026/325, directed to all Depository Participants (“DPs”), mandating immediate compliance action in respect of demat accounts whose Know Your Customer (“KYC”) records have not been validated by KYC Registration Agencies (“KRAs”). The circular operates as a continuation of the earlier directive issued on 16 April 2026 (Circular No. CDSL/OPS/DP/POLCY/2026/264) and represents a significant escalation in SEBI’s ongoing initiative to cleanse the securities market of non-compliant investor accounts.

This regulatory development bears material consequences for DPs, Beneficial Owners (“BOs”), and the broader architecture of investor protection in India’s capital markets. The directive is underpinned by SEBI’s long-standing obligation to ensure that all participants in the securities ecosystem are adequately identified, and that the integrity of the Permanent Account Number (“PAN”) as a financial identifier is preserved.

Table of contents

- [I. Background and Regulatory Context](#)
- [II. Nature and Scope of Non-Compliance](#)
- [III. Legal Consequences: The Freeze Mechanism](#)
- [IV. Obligations Imposed Upon Depository Participants](#)
- [V. Implications for Beneficial Owners](#)
- [VI. Final Regulatory Decision and Compliance Imperative](#)

II. Nature and Scope of Non-Compliance

The circular identifies two principal categories of non-validated PANs that have triggered the present directive. The first encompasses PANs that are invalid for any reason. The second category pertains to PANs that were updated in the KRA database during the period of 1 April 2026 to 30 April 2026 and have since failed the subsequent KRA validation process.

CDSL in furtherance of the directive, made available to each DP a customised, DP-wise list of deficient BO accounts in each DP’s designated billing folder. The file, bearing the naming convention “**BLNG<<DP ID>>_KRA_DEFICIENT_BO_0605026.tar**”. The precision of this mechanism reflects the regulatory expectation that DPs shall discharge their duties as gatekeepers of investor identity with the utmost diligence.

III. Legal Consequences: The Freeze Mechanism

The most operative provision of the circular is the imposition of a complete freeze applicable to both debit and credit transactions on all identified demat accounts, effective Saturday, 30 May 2026. The freeze shall be applied under **Reason Code 27**, designated as “**Account holder related KYC non-compliant.**”

The final data set to be considered for the purposes of applying the freeze shall be made available by KRAs as of 27 May 2026, affording a narrow three-day window between the data cutoff date and the effective date of the freeze. This compressed timeline underscores the urgency with which DPs must act, as any account that remains deficient in the KRA records as of 27 May 2026 will inevitably be frozen on 30 May 2026.

IV. Obligations Imposed Upon Depository Participants

The circular imposes an affirmative and time-sensitive obligation upon DPs to identify affected BOs from the deficient account lists and proactively engage with them to resolve KYC discrepancies prior to the freeze date. DPs must ensure that revised, validated KYC records are submitted to the relevant KRA within the available window so that accounts are reflected as compliant in KRA records by 27 May 2026.

For accounts that are nonetheless frozen on 30 May 2026, DPs are directed to follow the unfreezing procedure prescribed under Communique No. **CDSL/OPS/DP/SYSTEM/2023/525**, dated 5 September 2023. Failure to comply with the directives contained in the circular may expose DPs to regulatory scrutiny, and potentially to enforcement action.

V. Implications for Beneficial Owners

Beneficial Owners whose accounts are subject to the freeze will be unable to execute any transactions in their demat accounts until the KYC deficiency is remediated and the account is unfrozen by the DP. This carries practical implications of considerable significance particularly for investors who may be in the midst of time-sensitive market transactions, corporate actions, or rights entitlement periods.

VI. Final Regulatory Decision and Compliance Imperative

CDSL's decision is unequivocal: all demat accounts linked to PANs that remain non-validated in KRA records as of 27 May 2026 will be frozen for both debit and credit with effect from 30 May 2026, under **Reason Code 27**.

DPs are advised to take note of the same and ensure compliance. Queries regarding this communiqué may be addressed to: **CDSL – Helpdesk** Emails may be sent to: dprtastupport@cdslindia.com and telephone number 022-62343333.

For further details write to contact@indialaw.in

[Circular No. \[CDSL/OPS/DP/POLCY/2026/325\] \[May 14, 2026\] Validation of KYC Records With Kra](#)

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