

# Consultation Paper

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Draft circular on Ease of doing investment - Smooth transmission of securities from Nominee to Legal Heir

**AUGUST 12, 2025**



## OBJECTIVE

1. This consultation paper seeks comments / views / suggestions from the public and other stakeholders on the draft circular on “Ease of doing investment - Smooth transmission of securities from Nominee to Legal Heir”.

## BACKGROUND

2. SEBI has made providing ‘choice of nomination’ mandatory for all demat accounts to be opened with effect from October 01, 2021 and for MF units with effect from October 01, 2022. Also, with respect to existing demat accounts, mutual fund units as well as physical folios, security holders are being regularly advised by the Depository Participants and Registrars to an Issue and Share Transfer Agents (RTAs) to update ‘choice of nomination’ for their demat accounts/ MF Folios/ Physical Folios.
3. The purpose of providing nomination by an investor to an intermediary is that the intermediary is relieved of its responsibility once the securities lying with it are transmitted to a nominee after death of the original security holder (in case the security holder has provided a nominee). It may further be noted that Nominee holds a position of a Trustee and appointment of a nominee is not intended to create a third mode of succession<sup>1</sup>. The securities held by a nominee ultimately belong to the legal heirs of the original security holder.
4. Currently, transmission of securities from nominee to legal heir (in case the original security holder has provided nomination details) is not properly reported and may be considered as normal sale of securities and hence capital gain arising out of such transmission may be considered taxable in the hands of the nominee (transferor) though clause (iii) of Section 47 of the Income Tax Act, 1961 does not consider such transmission as “transfer”. Payment of capital gains tax by the nominee in such a situation may not be appropriate considering that the nominee only acts as a Trustee for the benefit of the legal heir(s) of the original security holder and ultimately the

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<sup>1</sup> Bombay High Court in Shakti Yezdani v. Jayanand Jayant Salgaonkar [2016 SCC OnLine Bom 9834] and Supreme Court in Shakti Yezdani & Anr. v. Jayanand Jayant Salgaonkar & Ors.



securities which belong to the legal heir(s) are transmitted by the nominee to such legal heir(s).

## PROPOSAL

5. In order to ensure proper reporting of the transmission of securities from nominee to legal heir, it is proposed to issue a circular on “Ease of doing investment - Smooth transmission of securities from Nominee to Legal Heir” to specify a standard reason code viz. “TLH” (i.e. Transmission to Legal Heirs) to be used by the reporting entities while reporting the transmission of securities from nominee to legal heir to Central Board of Direct Taxes so as to enable proper application of the provisions of the Income Tax Act, 1961.

## PUBLIC COMMENTS

6. The draft circular on “Ease of doing investment - Smooth transmission of securities from Nominee to Legal Heir” is placed at Annexure A. Comments are invited on the proposal mentioned in the draft circular. The comments / suggestions along with rationale should be submitted no later than **September 02, 2025**, through the following link:

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

7. In case of any technical issue in submitting your comment through web based public comments form, you may write to [consultationmird@sebi.gov.in](mailto:consultationmird@sebi.gov.in) with the subject: *"Comments on consultation paper on draft circular on Ease of doing investment - Smooth transmission of securities from Nominee to Legal"*.

**Encl: Annexure-A**



**DRAFT CIRCULAR**

SEBI/HO/MIRSD/ MIRSD-PoD/P/CIR/XXXX/XX

DD-MM-YYYY

To,

**The Registrars to an Issue and Share Transfer Agents (RTAs)**

**The Listed Issuers**

**The Depositories**

**The Depository Participants through Depositories**

Madam / Sir,

**Sub: Ease of Doing Investment - Smooth transmission of securities from Nominee to Legal Heir**

1. While SEBI has through various circulars/provisions streamlined the process of appointing nominee, the nominee who is a Trustee of the securities of the original security holder, may get assessed for tax when the nominee transmits these securities to the legal heir in spite of clause (iii) of Section 47 of the Income Tax Act, 1961 which does not consider such transmission as “transfer”. Payment of capital gains tax by the nominee in such a situation may not be appropriate considering that ultimately the securities belong to the legal heir and the same are transmitted by the nominee to the legal heir.
2. To examine the matter, a working group of Registrars to an Issue and Share Transfer Agents (RTAs) was formed. The working group held discussions with various stakeholders. Based on the discussions and various interactions, a proposal has been submitted by the working group wherein the reporting entities can use the reason code “TLH” (i.e. Transmission to Legal Heirs), while reporting the transactions related to transmission of securities from nominee to legal heir to the Central Board of Direct Taxes (CBDT).

3. Accordingly, in order to streamline the process of transmission of securities from nominee to legal heir and resolve the abovementioned issues related to taxation, it has been decided that a standard reason code viz. "TLH" shall be used by the reporting entities while reporting the transmission of securities from nominee to legal heir, to the CBDT so as to enable proper application of the provisions of the Income Tax Act, 1961.
4. The procedural requirements for transmission of securities to legal heir shall continue to be as provided under the provisions of SEBI (Listing Obligations and Disclosures Requirements) Regulations, 2015 and Master Circular for Registrars to an Issue and Share Transfer Agents dated June 23, 2025 (as updated from time to time).
5. In view of above, RTAs, Listed Issuers, Depositories and Depository Participants are directed to take note of above and make necessary system changes for implementation of above proposal within 3 months of the issuance of this circular.
6. This circular is issued in exercise of powers conferred under Section 11(1) of Chapter IV of the Securities and Exchange Board of India Act, 1992, and Section 19 of Chapter IV of the Depositories Act, 1996 to protect the interests of investors in securities and to promote the development of, and to regulate the securities markets.
7. This circular is available on SEBI website at [www.sebi.gov.in](http://www.sebi.gov.in) under the category: 'Legal → Circulars'.

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