

## **DRAFT CIRCULAR FOR PUBLIC COMMENTS**

### **Margin obligations to be given by way of Pledge / re-pledge in the Depository system**

#### **Background**

1. In order to mitigate the risk of misappropriation or misuse of client's securities, SEBI vide circular SEBI/HO/MIRSD/DOP/CIR/P/2020/28 dated February 25, 2020 mandated that the broker shall accept collateral from client in the form of securities only by the way of 'margin pledge'. The operational mechanism for initiation, release and invocation of margin pledge is provided at Annexure A of the said circular.
2. It has been observed that after invocation of client's securities pledged in favor of demat account of brokers (i.e. 'Client Securities Margin Pledge Account' or 'Client Securities under Margin Funding Account'), brokers are not selling such invoked shares on the same day, resulting into the accumulation of clients securities in demat account of the broker. The said accumulation may lead to a potential misutilization of client securities. Hence, in a move to mitigate the risk of misuse of client's securities, it is being proposed to block the securities for early pay-in in clients demat account upon invocation.
3. Further, in case when client sells the pledged securities, there is a two-step process – Un-pledging the pledged shares and pay-in of securities. In this regard, a representation has been received from member associations about operational difficulties being faced by brokers in the said process. Hence, it is proposed to introduce a single instruction in the form of "pledge release for pay-in" where the pledge will be released and the pay-in block will be set-up immediately in the client demat account.

**Public Comments:**

Draft circular on “Margin obligations to be given by way of Pledge / re-pledge in the Depository system” is placed at **Annexure**. The comments/ suggestions should be submitted latest by March 04, 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: "Public comments on Draft Circular - Margin obligations to be given by way of Pledge / re-pledge in the Depository system".

Annexure

**DRAFT CIRCULAR**

**SEBI/HO/MIRSD/MIRSD-PoD1/P/CIR/2024/XXX**

**DD-MM-YYYY**

To,

**All Recognized Stock Exchanges**

**All Recognized Clearing Corporations**

**All Depositories**

Madam / Sir,

**Sub: Margin obligations to be given by way of Pledge/Re-pledge in the Depository System**

1. SEBI, vide SEBI/HO/MIRSD/DOP/CIR/P/2020/28 dated February 25, 2020 (hereinafter mentioned as 'Circular') and Clause 41 of Master Circular for Stock Brokers dated August 09, 2024 (hereinafter mentioned as 'Master Circular'), mandated that the broker shall accept collateral from client in the form of securities only by the way of 'margin pledge'. The operational mechanism for initiation, release and invocation of margin pledge is provided at Annexure A of the circular dated February 25, 2020 and at Clause 41.11 of the Master Circular.
2. It has come to notice that after invocation of client's securities pledged in favor of demat account of brokers (i.e. 'Client Securities Margin Pledge Account' or 'Client Securities under Margin Funding Account'), brokers are not selling such invoked shares on the same day, resulting into the accumulation of clients securities in demat account of the broker. The said accumulation may lead to a potential misutilization of client securities.
3. Further, a representation has been received from Brokers' ISF regarding the operational difficulties faced by brokers in the process wherein clients sell the

pledged securities on their own. In the current process, broker has to first un-pledge the securities sold by the client and thereafter securities are delivered to Clearing Corporation by broker through using physical instruction or electronic instruction or DDPI/POA.

4. Based on the aforesaid observation/representation of Brokers' ISF and with a view to facilitate ease of doing business as well as to safeguard the interest of investors, the below given points/clauses are inserted in Annexure A of circular dated February 25, 2020 and Master circular for stock brokers:

- a. Point 9 (in Annexure A of the circular dated February 25, 2020) and clause 41.11.9 (Master circular for stock brokers):

*"In case where client sells the securities, which are pledged in favor of TM/CM as Margin/MTF/CUSPA pledge, depositories shall provide a functionality of single instruction in the form of 'Pledge release for early pay in' to TM/CM wherein pledge will be released and early pay in block will be set up immediately in client demat account subject to pay in validation i.e. only to the extent of delivery obligation of that client as provided by CCs to depositories without the need for physical instruction or electronic instruction or DDPI/POA."*

- b. Point 16 (in Annexure A of the circular dated February 25, 2020) and clause 41.11.16 (Master circular for stock brokers):

*"In case of invocation of margin pledged shares of client by Trading member (TM), the securities shall be blocked for early pay-in in the client's demat account with a trail being maintained in TM/CM's 'Client Securities Margin Pledge Account' / 'Client Securities under Margin Funding Account'. The pay in block in client's demat account shall be subject to pay in validation i.e. only to the extent of delivery obligation of that client as provided by CCs to depositories."*

5. Accordingly, Annexure A of SEBI Circular SEBI/HO/MIRSD/DOP/CIR/P/2020/28 dated February 25, 2020 and Clause 41 of Master Circular for Stock Brokers dated August 09, 2024 stand amended to the extent of para 3 as detailed above. All other provisions specified in SEBI Circular dated February 25, 2020 and SEBI Master Circular for Stock Brokers dated August 09, 2024 shall continue to remain applicable.
6. The provisions of this circular shall come into force with effect from DD-MM-YYYY.
7. The detailed operating guidelines shall be specified by depositories by DD-MM-YYYY.
8. The Stock Exchanges, Clearing corporations and Depositories shall:
  - 8.1. bring the provisions of this circular to the notice of their members and also disseminate the same on their websites;
  - 8.2. make necessary amendments to the relevant Bye-laws, Rules and Regulations for the implementation of the above direction;
9. 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 to protect the interests of investors in securities and to promote the development of, and to regulate the securities markets and shall come into effect from the date of this circular.
10. This circular is available on SEBI website at [www.sebi.gov.in](http://www.sebi.gov.in) under the category: 'Legal → Circulars.