

DRAFT CIRCULAR FOR PUBLIC COMMENTS

Ease of Doing Investment and Ease of Doing Business- Handling of Client's Unpaid Securities by Trading Members/ Clearing Members

1. In order to strengthen investor protection by ensuring segregation and safeguarding of clients' securities, SEBI vide Circular Nos. CIR/HO/MIRSD/DOP/CIR/P/2019/75 dated June 20, 2019 and SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2022/153 and November 11, 2022 specified certain provisions related to handling of unpaid securities of clients (i.e., the securities that have not been paid for in full by the clients).
2. Aforementioned provisions were subsequently subsumed in Paragraph 46 of the SEBI Master Circular ("Master Circular") for Stock Brokers dated June 17, 2025. These provisions mandate trading member (TM)/ clearing member (CM) to open separate dematerialisation ("Demat") account, namely, "Client Unpaid Securities Pledgee Account" ("CUSPA") in which unpaid securities of the clients are to be pledged till the client meets the payment obligation within specified timeline.
3. Broker's Industry Standards Forum ("ISF") has represented certain operational concerns with respect to the CUSPA framework. Further, the regulatory developments such as introduction of mandatory pay-out of securities directly to clients' demat account also has a bearing on the existing CUSPA framework. Representations have also highlighted need for clarity on certain provisions.
4. Accordingly, with a view to enhance ease of doing business, to align with the developments in regulatory and market environment and promote ease of investment while ensuring protection of interests of investors at all times, a draft circular containing proposed revisions is placed at **Annexure** for seeking public comments. These provisions are proposed to replace the existing provisions of paragraph 46 of the Master Circular.
5. While the proposed provisions are contained in the Annexure in detail, the major changes proposed to the CUSPA framework along with their intended objectives are summarized as under:

5.1. Providing clarity on maximum funding period

Concern:

As highlighted by the Brokers' ISF and exchanges, there is a misconception among some clients that the clients are entitled to a five-days window from pay-out date for meeting payment obligation towards unpaid securities, due to lack of clarity in existing provisions.

Solution proposed:

For promoting ease of doing business, it is proposed to modify the concerned provision to specifically mention that a trading member may, at its discretion, allow unpaid securities for a shorter duration than five trading days from pay-out and require the client to fulfil the payment obligation within that period, in accordance with its policy communicated to the clients.

5.2. Timeline for release of pledge**Concern:**

Existing framework does not specify any timeline for release of pledge once the client fulfils the payment obligation.

Solution proposed:

In order to provide ease of investment, it is proposed that if the payment obligation is received from a client before 5 P.M. on a particular day, the pledge on the securities shall be released on the same day. For receipt after the said cut-off time, the pledge will be released before 5 PM on the next trading day.

5.3. Partial release of pledge**Concern:**

In case of change in value of pledged securities as well as receipt of part payment from clients, the existing provisions do not specifically provide for partial release of pledge.

Solution proposed:

For promoting ease of investment, it is proposed that the TM will carry out daily assessment of maximum pledge value during the funding period based on client obligations and exchange guidelines and ensure partial release of pledge for appropriate quantity of pledged securities.

5.4. Timeline for auto-release of pledge

Concern:

As specified in the existing provisions, in case, pledge is neither invoked nor released within seven trading days after the pay-out, the pledge on securities shall be auto released and the securities shall be available to the client as free balance without encumbrance. There is no clarity regarding specific time for such auto-release of pledge.

Solution proposed:

To facilitate ease of investment, it is proposed that, in case the pledge is neither invoked nor released within five trading days after pay-out, the pledge on unpaid securities shall be automatically released by the depositories at the end of the sixth trading day from pay-out date.

5.5. Pledging by TM to CM

Concern:

As highlighted by ISF and Mills, there is no clarity on the pledging procedure when TM and CM are separate entities.

Solution proposed:

It is proposed to specify that where the TM and CM are separate entities, and the TM has not met the fund obligation towards CM in respect of such securities, the unpaid securities shall be re-pledged in favour of the separate CUSPA account opened by CM.

5.6. Extension of pledge in exceptional cases

Concern:

The existing provisions do not cover exceptional scenarios such as force majeure or situation when the unpaid pledged securities are not sellable.

Solution proposed:

It is proposed that, in exceptional cases, where unpaid pledged securities cannot be liquidated within five trading days of pay-out such as due to lower circuit conditions, trading suspension or such other reasons beyond the control of the TM/CM, the TM/CM may request the depositories to extend the pledge by up to one additional calendar week.

Further extensions of similar period may be permitted if such conditions persist. However, once the constraints cease and the securities become sellable, no further extension shall be allowed. Failure to seek extension within the prescribed timeline, will result in automatic system-based release of the pledged securities.

6. The comments/ suggestions on the proposed draft circular placed at **Annexure** to this paper should be submitted latest by **May 15, 2026**, 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 consultationMIRSD@sebi.gov.in with the subject: "Handling of Client's Unpaid Securities by Trading Members/ Clearing Members".

Issued on: April 24, 2026

Annexure

DRAFT CIRCULAR

SEBI/HO/MIRSD/MIRSD-PoD/P/CIR/2026/

DD-MM-YYYY

To,

All recognized Stock Exchanges

All Depositories

All Stock Brokers

Madam / Sir,

Sub: Ease of Doing Investment and Ease of Doing Business- Handling of Client's Unpaid Securities by Trading Members/ Clearing Members

1. Paragraph 46 of the Master Circular for Stock Brokers dated June 17, 2025 specifies provisions with respect to Handling of Client's Securities by Trading Members (TM)/ Clearing Members (CM). These provisions were introduced vide SEBI Circular Nos Circular CIR/HO/MIRSD/DOP/CIR/P/2019/75 and SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2022/153 dated June 20, 2019 and November 11, 2022 respectively. Post introduction of these provisions, there have been regulatory developments such as introduction of mandatory pay-out of securities directly to clients' demat accounts, as well as changes in market practices. Representations have been received from Brokers' Industry Standards Forum (ISF) seeking revisions to these provisions to better align them with the current regulatory and market environment and to address certain operational challenges faced during implementation.
2. Based on the recommendations of Brokers' ISF and discussions with MIIs, in order to enhance the ease of doing business for stockbrokers and ease of doing investment for clients and to align with the developments since introduction of

above referred provisions while ensuring protection of interests of investors at all times, it has been decided to amend Paragraph 46 of the Master Circular for Stock Brokers dated June 17, 2025, which shall stand modified as under:

“46. Handling of Client’s Unpaid Securities by Trading Members/ Clearing Members

- 46.1 *For clients not availing margin trading facility (MTF) from a trading member (TM), the TM may allow the client up to five trading days from the pay-out date to meet the payment obligation for securities purchased. In accordance with paragraph 51 of this circular, the pay-out of the unpaid securities (i.e., the securities that have not been paid for in full by the clients) shall be directly made to the client’s demat account.*
- 46.2 *Although the unpaid securities shall remain in the client’s demat account, a pledge shall be marked on such securities in favour of a separate account titled –“client unpaid securities pledgee account (CUSPA)” opened by TM*
- Where the TM and clearing member (CM) are separate entities, and the TM has not met the fund obligation towards CM in respect of such securities, the unpaid securities shall be re-pledged in favour of the separate CUSPA account opened by CM.*
- 46.3 *After the creation of pledge , a communication (email / SMS) shall be sent by TM informing the client about their funds obligation and also about the right of TM to sell such securities in the event of failure by client to fulfill their obligation.*
- 46.4 *The TM shall formulate and maintain a policy for handling unpaid securities in terms of this circular and any circulars/ operational guidelines issued by Exchanges in this regard and communicate the same to all clients prior to implementation. The policy must include clear process and indicate reasons, manner, timing etc. pertaining to liquidation of unpaid securities. Such policy must indicate the maximum funding period, which shall not exceed five trading days from the pay-out date, within which the client must meet the payment obligation.*

- 46.5 *While unpaid securities may be considered for reporting client margin collection to Clearing Corporation during the funding period, TM shall not allow further exposure on the basis of such unpaid securities to the client.*
- 46.6 *If the client fails to meet the payment obligation within the prescribed timeline, the TM shall, in accordance with its policy, invoke the pledge and liquidate the unpaid securities. The TM shall give notice to the client at least one day before liquidation of unpaid securities.*
- 46.7 *On invocation, the securities shall be blocked for early pay-in in the client's demat account with a trail being maintained in the TM's CUSPA account. Once such securities are blocked for early pay-in in client's demat account, the depositories shall verify the block details against the client level obligation.*
- The unpaid securities shall be sold in the market with UCC of the respective client. Any surplus funds remaining after settling the client's obligation shall be credited to the client's ledger.*
- 46.8 *If the client fulfils the payment obligation within the permitted timeline before 5 P.M. during the day, the pledge on the securities shall be released on the same day, and the securities shall become available to the client as free balance without encumbrance. If a client meets the payment obligations after 5 P.M. on a day, the pledge shall be released and securities shall become available as free balance without encumbrance before 5 P.M. on the next trading day.*
- 46.9 *Further, during the funding period specified in the TM's policy, the TM shall everyday determine the maximum value of securities that may remain pledged in accordance with the operational guidelines issued by the exchanges from time to time. Such maximum pledge value shall be based on the client's ledger balance, the client's overall margin obligations or any other relevant factor as specified in the operational guidelines of the exchanges.*

46.10 If the value of pledged securities exceeds this maximum pledge value, the TM shall release the pledge on the appropriate quantity of securities corresponding to the excess value on same day.

46.11 In cases where the TM has met the payment obligation to the CM despite not receiving funds from the client, the pledge in favour of the CM shall be released, and the unpaid securities shall remain pledged only in favour of the TM.

46.12 In case, such pledge on unpaid securities is neither invoked nor released within five trading days after the pay-out, the pledge on securities shall be automatically released by the depositories at the end of the next trading day, and the securities shall become available to the client as free balance without encumbrance.

46.13 Securities pledged in favor of “client unpaid securities pledgee account - (CUSPA)” demat account shall not be permitted to be pledged/transferred to Banks/NBFCs for raising funds by TM/CM.

46.14 In exceptional circumstances, if the unpaid pledged securities cannot be liquidated by stockbroker within 5 trading days after pay-out due to-

- a. the security being in lower circuit with only sellers,
- b. suspension or trading halt due to surveillance or other reasons, or
- c. any other valid reasons as recognized by MIs including unforeseen circumstances beyond the control of the TM/CM,

the TM/CM may make a request to the Depositories (through their DPs), by 6 PM on fifth trading day after pay-out, to extend the pledge by up to one additional calendar week.

If the above conditions continue through the extended period, further extensions of similar period may be sought. MIs may grant such extensions if satisfied with the reasons provided. However once these conditions no longer exist, the TM/CM shall not be permitted to seek any further extension for any reason.

Failure by the TM/CM to request a pledge extension within the stipulated timeframe will result in automatic system-based release of the pledged securities.”

3. Stock Exchanges, Depositories and Clearing Corporations shall put in place appropriate systems to ensure compliance of the above provisions.
4. Accordingly, Paragraph 46 of Master Circular for Stock Brokers dated June 17, 2025 stand amended to the extent of para 2 as detailed above. All other provisions specified in Master Circular for Stock Brokers dated June 17, 2025 shall continue to remain applicable.
5. The provisions of this circular shall come into force with effect from DD-MM-YYYY.
6. Stock Exchanges/Depositories are directed to:
 - 6.1. bring the provisions of this circular to the notice of their members / participants and also disseminate the same on their websites;
 - 6.2. make necessary amendments to the relevant Bye-laws, Rules and Regulations for the implementation of the above decision;
7. 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 read with Regulation 50 of SEBI (Stock Brokers) Regulations, 2026, Regulation 51 of Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) Regulations, 2018 and Regulation 97 of SEBI (Depositories and Participants) Regulations, 2018 to protect the interests of investors in securities and to promote the development of, and to regulate the securities markets.
8. This circular is available on SEBI website at www.sebi.gov.in under the category: ‘Legal → Circulars’.