

CIRCULAR

HO/38/11/(9)2026-MIRSD-POD/II/15382/2026

July 03, 2026

To,

All recognized Stock Exchanges

All Depositories

All Stock Brokers

Madam / Sir,

Sub: Handling of Client's Unpaid Securities by Trading Members

1. Paragraph 46 of the Master Circular for Stock Brokers dated June 17, 2025 ("Master Circular") 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. 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.
2. Representations have been received from Brokers' Industry Standards Forum (ISF) seeking revisions to these provisions to align them with the current regulatory and market environment and to address certain operational challenges faced during implementation.
3. Accordingly, in order to enhance the ease of doing business for stockbrokers and ease of doing investment for clients, it has been decided to amend Paragraph 46 of the Master Circular as under:

“46. Handling of Client’s Unpaid Securities by Trading Members (TM)

Creation of pledge for unpaid securities

- 46.1 For trades not covered under margin trading facility (MTF), the pay-out of 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 followed by creation of an auto-pledge (i.e., without any specific instruction from the client) with the reason “unpaid”, in favor of a separate account titled –“client unpaid securities pledgee account (CUSPA)”, which shall be opened by TM.
- 46.2 After the creation of pledge, a communication (email / SMS) shall be sent by TM informing the client about the client’s funds obligation and also about the right of TM to sell such securities in the event of failure by client to fulfill such obligation.

Policy by TM for handling unpaid securities

- 46.3 The TM shall formulate and maintain a policy, either on standalone basis or as part of its Risk Management 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.
- 46.4 The policy must include clear processes and indicate reasons, manner, timing etc. pertaining to invocation/release of pledge and liquidation of unpaid securities. Such policy must indicate the maximum period (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 pledged to CUSPA of TM may be considered for reporting client margin collection to Clearing Corporation, the TM shall not allow exposure on the basis of such securities to the client.

Release of pledge on the securities

- 46.6 During the period in which client’s funds obligation for unpaid securities continue, the TM shall, on daily basis, 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.

46.7 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 or before next trading day in accordance with operational guidelines of the exchanges.

Invocation of pledge

46.8 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 reasonable notice to the client before invocation of pledge and liquidation of unpaid securities.

46.9 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 Unique Client Code (UCC) of the respective client. Any surplus funds remaining after settling the client's obligation shall be credited to the client's ledger.

Auto-release of pledge

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

In this regard, it is clarified that TM may request for release of pledge any time before auto-release by depository.

Prohibition on further pledging/transferring CUPSA pledged securities

46.11 Securities pledged in favor of CUSPA of TM shall not be permitted to be pledged/transferred to Banks/NBFCs for raising funds.

Extension of pledge in exceptional circumstances

46.12 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,

the TM may make a request 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.

However once the aforesaid circumstances no longer exist, the TM shall not be permitted to seek any further extension for any reason.

46.13 In case of each extension of pledge, the TM shall send a communication to the client to that effect.

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

4. Accordingly, Paragraph 46 of Master Circular stands amended to the extent of Paragraph 3 as detailed above. All other provisions specified in Master Circular shall continue to remain applicable.

Timelines for implementation

5. Stock exchanges shall issue operational guidelines for implementation of provisions of this circular, in consultation with depositories within 30 days from the date of issuance of this circular.

6. The amended provisions of Paragraph 46.1 to 46.11 of Master Circular shall come into force with effect from three months from the date of issuance of operational guidelines by stock exchanges.
7. The amended provisions of Paragraph 46.12 to 46.14 of Master Circular shall come into force with effect from six months from the date of issuance of this circular.
8. Stock exchanges/depositories are directed to:
 - 8.1. bring the provisions of this circular to the notice of their members / participants 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 decision;
 - 8.3. have in place appropriate systems and arrangements for effecting the provisions of this circular.
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 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.
10. This circular is available on SEBI website at www.sebi.gov.in under the category: 'Legal → Circulars'.

Yours faithfully,

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