

Circular No.: NSDL/POLICY/2020/0077

June 1, 2020

Subject: Operational Guidelines on margin obligations to be given by way of Pledge/ Re-pledge in the Depository System.

Attention of Participants is invited to SEBI Circular Nos. SEBI/HO/MIRSD/DOP/CIR/P/2020/28 dated February 25, 2020 (NSDL Circular No. NSDL/POICY/2020/0023 dated February 26, 2020), SEBI/HO/MIRSD/DOP/CIR/P/2020/88 dated May 25, 2020 (NSDL/POLICY/2020/0073 dated May 27, 2020), SEBI/HO/MIRSD/DOP/CIR/P/2020/90 dated May 29, 2020 (NSDL Circular No. NSDL/POLICY/2020/0075 dated May 30, 2020) and NSDL Circular No. NSDL/POLICY/2020/0076 dated May 31, 2020 regarding margin obligations to be given by way of Pledge/ Re-pledge in the Depository System in favour of Trading Members (TM), Clearing Members (CM) and Clearing Corporations (CC).

As per aforesaid SEBI Circulars, with effect from August 1, 2020, TM / CM shall, accept collateral from clients in the form of securities, only by way of 'margin pledge', created in the Depository system in accordance with Section 12 of the Depositories Act, 1996 read with Regulation 79 of the SEBI (Depositories and Participants) Regulations, 2018 and the relevant Bye Laws of the Depositories.

In this context, all Participants are hereby requested to take note of the following operational guidelines for necessary implementation of the aforesaid SEBI circulars:

A. Opening of demat accounts by TM/CM for margin pledge

- 1) To facilitate TM/CM to open separate demat account(s) for accepting margin pledge, the list of new type and sub-types which will be introduced in the DPM system have been communicated to Participants vide Circular No. NSDL/POLICY/2020/0076 dated May 31, 2020.
- 2) A TM who is not a CM may open demat account under sub-type "TM – Client Securities Margin Pledge Account" and client securities pledged in the said account can in turn be re-pledged with a CM for providing collateral in form of securities as margin.
- 3) A TM who is also a CM may open demat account under sub-type "TM/CM – Client Securities Margin Pledge Account" and client securities pledged in the said account can in turn be re-pledged with another CM (*in its capacity as a TM*) or CC (*in its capacity as a CM*) for providing collateral in form of securities as margin.
- 4) A CM who wants to take re-pledge of securities from a TM may open demat account under sub-type "CM – Client Securities Margin Pledge Account" and client securities re-pledged in the said account can in turn be further re-pledged with CC for providing collateral in form of securities as margin.

- 5) On activation of Margin Pledge account, TM/CM will upload additional details like TM/CM Code, Segment ID, Exchange code, role, etc. with respect to its 'Client Securities Margin Pledge Account' through SPEED-e.
- 6) If TM/CM opts to open the 'Client Securities Margin Pledge Account' with the existing Participant, then a consent form enclosed as **Annexure 1** for the same needs to be obtained by Participant from TM/CM. However, if TM/CM opts to open 'Client Securities Margin Pledge Account' with any other Participant, then TM/ CM will be required to follow the complete procedure of account opening.

B. Initiation of Margin Pledge / Re-pledge

- 1) Client can initiate a margin pledge in favour of 'TM – Client Securities Margin Pledge Account' or 'TM/CM – Client Securities Margin Pledge Account' by submitting a physical Margin Pledge Form to its Participant or electronic instructions through SPEED-e. Such instructions should have details of client UCC, TM, CM and Default Segment. In case the client has given a Power of Attorney (POA) to a TM which is registered in the demat account of the client, such instructions may be given by the TM on behalf of the Client.
- 2) On receipt of margin pledge instruction either from a client or TM (based on the POA), a link to 'Confirm Margin Pledge Transactions' would be generated and sent by NSDL through SMS on registered mobile number and registered e-mail id in the demat account of a client. On clicking the said link, client will be redirected to a web page where client will be authenticated with "PAN" (not applicable in case of PAN exempt clients), After authentication, One Time Password (OTP) will be sent on the registered mobile number and registered e-mail id of the client and client will be displayed the details of outstanding margin pledges for the specific TM. On OTP authentication, margin pledge transaction would be processed further.
- 3) As the margin pledge transactions have to be authenticated by the client using OTP, Participants are advised to ensure that the client is registered for SMS alert facility and has a valid and active email ID registered in the demat account.
- 4) TM/CM can initiate a margin re-pledge in favour of 'CM – Client Securities Margin Pledge Account' / 'CC' by submitting a physical Margin Pledge Form to its Participant or electronic instructions through SPEED-e.

- 5) While re-pledging the securities to the CM / CC, TM / CM are required to provide specific pledge instruction number for which re-pledge is required to be initiated. The CM/CC will be able to view the details of the specific pledge instruction number which will also include the details of the client for which the re-pledge is initiated.
- 6) Margin pledge and re-pledge instruction shall be reflected in the client account against each security provided as collateral to a TM, and in whose favour i.e. TM / CM / CC.

C. Release of a Margin Pledge / Re-Pledge:

- 1) Client can initiate a release of margin pledge request for the securities pledged/ re-pledged with TM/CM/CC for margin/collateral purpose by submitting a physical Margin Pledge Form to its Participant or electronic instructions through SPEED-e.
- 2) For release of client securities (based on client request to TM) pledged in favour of a TM to provide collateral / margin, the TM can initiate a unilateral release of pledge by submitting the Margin Pledge Form to its Participant or electronic instructions through SPEED-e.
- 3) For release of client securities (based on TM request to CM) pledged in favour of a TM to provide collateral / margin and which are subsequently re-pledged in favour of a CM, the CM can initiate a release request (by the way of unilateral closure) of re-pledge by submitting the Margin Pledge Form to its Participant or electronic instructions through SPEED-e.
- 4) For release of client securities (based on CM request to CC) pledged in favour of a TM to provide collateral / margin and which are subsequently re-pledged in favour of a CM and further re-pledged by CM to the CC, the CC may initiate a release request (by the way of unilateral closure) of re-pledge through Participant on eDPM.
- 5) TM /CM/CC may initiate request for release of margin pledge/re-pledge.

D. Invocation of Margin pledge/ re-pledge:

- 1) TM/CM may initiate an invocation request of pledged/ re-pledged client securities by submitting a physical Margin Pledge Form to its Participant or electronic instructions through SPEED-e.
- 2) CC may initiate an invocation request of re-pledged client securities by giving an instruction to the depository.

3) Invocation by TM:

- a. For invocation of client securities pledged in favour of TM as collateral / margin, the TM will request to invoke the securities by submitting a Margin Pledge Form to its Participant or electronic instructions through SPEED-e.
- b. For invocation of client securities pledged in favour of a TM to provide collateral / margin and which are subsequently re-pledged in favour of a CM, the CM may give instructions to its Participant or electronic instruction through SPEED-e to release (by the way of unilateral closure) the re-pledged client securities to TM. The TM may initiate invocation request by submitting the Margin Pledge Form to its Participant or electronic instructions through SPEED-e.
- c. For invocation of client securities pledged in favour of a TM to provide collateral / margin and which are subsequently re-pledged in favour of a CM and further re-pledged by CM to the CC, the CC may initiate a release of pledge (by the way of unilateral closure) and the CM may give instructions to its Participant or electronic instruction through SPEED-e to release (by the way of unilateral closure) the re-pledged client securities to TM. The TM may initiate invocation request by submitting the Margin Pledge Form to its Participant or electronic instructions through SPEED-e.

4) Invocation by CM:

- a. For invocation of client securities re-pledged in favour of CM as collateral / margin, the CM will request to invoke the securities by submitting a Margin Pledge Form to its Participant or electronic instructions through SPEED-e.
- b. For invocation of client securities re-pledged in favour of a CM to provide collateral / margin and which are subsequently re-pledged in favour of a CC, the CC may submit instructions through eDPM system to release (by the way of unilateral closure) the re-pledged client securities to CM. The CM may initiate invocation request by submitting the Margin Pledge Form to its Participant or electronic instructions through SPEED-e.

5) Invocation by CC:

- a. For invocation of client securities re-pledged in favour of CC as collateral / margin, the CC will invoke the securities by giving instructions to the depository. Such instructions will include the pledge instruction number and client details.

E. Other points

1. Existing pledge mechanism shall remain unchanged and will continue to co-exist along with the 'Margin Pledge' type mentioned above.
2. For margin pledge functionality, it will be necessary to open the designated demat accounts by TM/CM.
3. Validation of the margin pledge instruction will be done with the UCC database (i.e. Client UCC, TM ID, Segment) which is linked in the demat account of the Client.
4. Since TM / CM are required to close all their existing demat accounts with sub-type 'Client Margin/Collateral Account' by the date specified by SEBI, Participants may facilitate closure of such accounts upon receipt of closure request forms from the TM/CM.
5. The consequent amendments to Bye-laws and Business Rules of NSDL including formats for Margin Pledge form will be notified separately.

Participants are requested to inform their clients suitably and ensure compliance.

For and on behalf of
National Securities Depository Limited

Chirag Shah
Senior Manager

Enclosed: One

FORTHCOMING COMPLIANCE			
Particulars	Deadline	Manner of sending	Reference
Investor Grievance Report (Monthly)	By 10 th of the following month.	Through e-PASS	Circular No. NSDL/POLICY/2015/0096 dated October 29, 2015
Internal/ Concurrent Audit Report (October 2019 – March 2020)	June 30 th 2020	Through e-PASS	1. Circular No. NSDL/POLICY/2020/0045 dated April 7, 2020 2. Circular No. NSDL/ POLICY/2020/0056 dated April 29, 2020 3. Circular No.: NSDL/ POLICY/2020/0062 dated May 7, 2020.
Compliance Certificate (January - June)	July 31st every year	Through e-PASS	1. Circular No. NSDL/POLICY/2010/0017 dated February 22, 2010 2. Circular No. NSDL/POLICY/2018/0028 dated May 21, 2018. 3. Circular No. NSDL/POLICY/2019/0088 dated December 17, 2019.