

SEBI Consultation Paper on Ease of Doing Investment and Ease of Doing Business: Handling of Client's Unpaid Securities by Trading Members/Clearing Members

BACKGROUND

The Securities and Exchange Board of India (“SEBI”) has issued a consultation paper dated April 24, 2026 (“**Consultation Paper**”), enclosing the draft circular on “*Ease of Doing Investment and Ease of Doing Business- Handling of Client's Unpaid Securities by Trading Members/ Clearing Members*” (“**Draft Circular**”), proposing revisions to the framework governing handling of clients' unpaid securities by trading members (“**TMs**”) and clearing members (“**CMs**”). The proposed revisions seek to replace the existing provisions contained in paragraph 46 of the SEBI Master Circular for Stock Brokers dated June 17, 2025.

The current framework requires unpaid client securities to remain pledged in a separate “Client Unpaid Securities Pledge Account” (“**CUSPA**”) until payment obligations are met within the prescribed timeline. Based on industry representations, regulatory developments including mandatory direct pay-out to clients' demat accounts, and operational issues in the implementation, SEBI has proposed revisions to improve clarity and operational efficiency, while safeguarding investor interests, as discussed below:

PROPOSED CHANGES

- **Clarity on on maximum funding period:** The Draft Circular aims to clarify that the maximum funding period shall not exceed five trading days from the pay-out date. The TM may, at its discretion and in accordance with its policy, prescribe a shorter funding period for clients to fulfil their payment obligations. This seeks to address ambiguity regarding the perceived entitlement of clients to a uniform five-day funding window.
- **Timeline for release of pledge:** The Draft Circular addresses the absence of specified timelines under the existing framework, by proposing that if payment obligation is met by the client before 5 PM, the pledge is to be released on the same day. However, for payment obligation received after 5 PM, the pledge is to be released by 5 PM on the next trading day.
- **Partial release of pledge:** Keeping in mind the absence of provisions regarding partial release of pledge, the Draft Circular proposes that TMs undertake a daily review of the value of securities required to remain under pledge during the funding period, having regard to client obligations and applicable exchange guidelines. Based on such assessment, the pledge would be partially released for the appropriate quantity of securities.
- **Timeline for auto-release of pledge:** With respect to specific timelines for auto-release of pledges, the Draft Circular proposes that where a pledge is neither invoked nor released within five trading days from pay-out, the depositories shall automatically release the pledge at the end of the sixth trading day. This seeks to provide clarity and certainty in relation to system-based auto-release.

- **Re-pledging by TM in favour of CM:** In cases wherein the TM and CM are separate entities, and the TM fails to meet its fund obligation towards the CM, the Draft Circular proposes that such unpaid securities will be re-pledged in favour of the CM's designated CUSPA account.
- **Extension of pledge in exceptional circumstances:** To address situations where unpaid pledged securities cannot be liquidated within the prescribed period owing to market disruptions or other exceptional circumstances (such as *force majeure*), it has been proposed that the TM/CM may request the depositories to extend the pledge by up to an additional calendar week, with scope for further extensions where the underlying conditions continue. Any failure on part of the TM/CM to seek such extension will lead to automatic system-based release of the pledged securities.



ELP Comments

The Consultation Paper and the proposed revisions in the Draft Circular signal SEBI's continued focus on refining the CUSPA framework in line with evolving market practices, while maintaining a clear emphasis on investor protection. By introducing greater clarity on funding timelines, pledge release and auto-release mechanisms, the proposals are likely to reduce interpretational inconsistencies and promote more uniform implementation across intermediaries. Notably, the recognition of partial pledge release and the framework for re-pledging between trading members and clearing members reflect a pragmatic approach to operational realities. The flexibility to prescribe shorter funding periods and the ability to extend pledges in exceptional circumstances further indicate a shift towards a more principle-based and facilitative regulatory regime. Overall, the proposals appear to be well-calibrated and should meaningfully enhance operational efficiency without compromising the underlying safeguards, thereby striking an appropriate balance between ease of doing business and investor protection.

SUBMISSION OF COMMENTS

Public comments are invited to the aforesaid proposals and may be submitted at the latest by May 15, 2026, through the public comments' mechanism available on SEBI's website.

For those interested, they may access the Consultation Paper [here](#).

We hope you have found this information useful. For any queries/clarifications, please write to us at insights@elp-in.com or write to our authors:

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