

Pledging of securities of Non-Discretionary Portfolio Management Services clients – Informal Guidance by SEBI

Geojit Financial Services Limited (**Geojit**), registered with Securities and Exchange Board of India (“**SEBI**”) as a portfolio management services provider, sought SEBI’s informal guidance under the Securities and Exchange Board of India (Informal Guidance) Scheme, 2025 on the following issues in the context of a client availing Non-Discretionary Portfolio Management Services (**ND-PMS**):

- Whether a Portfolio Manager may permit a client availing ND-PMS to pledge securities held in the client’s demat account? The pledge is initiated solely at the client’s discretion for the client’s own benefit, not for the Portfolio Manager’s benefit.
- Whether such pledge by the client would be construed as borrowing of funds or securities by the portfolio manager on behalf of the client, which is restricted under Regulation 23(8) of the SEBI (Portfolio Managers) Regulations, 2020 (**PMS Regulations**).
- Whether the market value of securities pledged by the client may continue to be included in the Portfolio Manager’s Asset Under Management (AUM) and reflected in regulatory reporting, given that the beneficial ownership of the securities remains with the client and the act of pledging does not alter such ownership?
- Whether any specific disclosure or risk warnings are required to be provided by the Portfolio Manager to the client regarding the risks associated with pledging of securities, including but not limited to the risk of invocation of pledge and loss of securities?
- Whether the Portfolio Manager is required to intimate SEBI or the Custodian regarding such pledging arrangements entered into by the client?
- Any other precautions which Geojit has to take, to be compliant with SEBI Regulations.

SEBI has provided the following responses to the queries above:

- Yes, a Portfolio Manager may permit a client availing ND-PMS to pledge securities held in the client’s demat account since a Non-Discretionary Portfolio Manager manages the clients funds in accordance with the directions of the client. The client, as the beneficial owner of the securities, has the right to use its own assets, including those under PMS, as pledge for loans.
- Restrictions with respect to borrowing of funds under Regulation 23(8) of the PMS Regulations do not prevent ND-PMS clients from pledging their securities, provided the pledge is initiated solely by or at the client’s discretion.
- A pledge does not change the beneficial ownership of the pledged securities, unless such pledge is invoked. Therefore, the market value of securities pledged by the client shall continue to be included in the Portfolio Manager’s Asset Under Management and reflected in the regulatory reporting, until invocation of the pledge.
- SEBI declined to respond to queries 4 and 6, on the ground that the queries are general in nature and do not cite applicable legal provisions.
- For query no 5, SEBI has stated that the Portfolio Manager may be guided by the provisions of the PMS Regulations and the Circulars/Master Circulars issued thereunder from time to time.

ELP Comments

Regulation 23(8) of the PMS Regulations states as follows:

“The portfolio manager shall not borrow funds or securities on behalf of the client.”

Logically speaking, Regulation 23(8) should apply only to clients availing discretionary portfolio management services. The PMS Regulations do make a distinction between discretionary and non-discretionary clients at various places. For example, Regulation 23(1) of the PMS Regulations mandates discretionary portfolio managers to independently manage the funds of each client in accordance with the needs of the client, whereas non-discretionary portfolio managers are mandated to manage the clients’ funds in

accordance with the directions of the client. Ideally, Regulation 23(8) of the PMS Regulations ought to have stated clearly that it applies only to discretionary portfolio managers.

Geojit's letter to SEBI dated March 17, 2026 and SEBI's informal guidance can be found [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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