

Handling of Client's Unpaid Securities by Trading Members / Clearing Members

BACKGROUND

SEBI has issued a circular dated July 03, 2026, amending Paragraph 46 of the Master Circular for Stockbrokers, 2025, dated June 17, 2025, (**Master Circular**) governing the handling of clients' unpaid securities by Trading Members (**TM**). The amendments have been introduced in light of recent regulatory developments, including the mandatory direct pay-out of securities to clients' demat accounts, evolving market practices and representations received from the Brokers' Industry Standards Forum (**ISF**). The revised framework seeks to enhance ease of doing business for stockbrokers, and ease of doing investment for clients.

KEY AMENDMENTS

- **Creation of Auto-Pledge for Unpaid Securities:** Unpaid securities shall be credited directly to the client's demat account and auto-pledged in favor of a separate Client Unpaid Securities Pledgee Account (CUSPA) opened by the TM. Clients must be notified by the TM regarding payment obligations and the TM's right to liquidate unpaid securities in case of default.
- **Policy and Management of Unpaid Securities:** TMs must formulate and communicate a policy indicating reasons, manner, timing, etc. governing invocation, release and liquidation of unpaid securities, with a maximum payment period of five trading days from pay-out. Unpaid pledged securities may be considered for margin reporting; however, no trading exposure may be granted against such securities.
- **Release of pledge on the securities:** TMs are required to determine, on a daily basis, the maximum value of unpaid securities that may remain pledged based on the client's ledger balance, margin obligations and other factors specified by the stock exchanges. Where the value of pledged securities exceeds the permissible threshold, the excess pledge must be released on or before the next trading day.
- **Invocation of pledge:** In the event a client fails to fulfil its payment obligation within the prescribed timeline, the TM shall, in accordance with its policy, invoke the pledge after providing reasonable notice to the client. Upon invocation, the unpaid securities shall be blocked for early pay-in and liquidated through the market using the respective client's Unique Client Code (UCC), with any surplus remaining after settlement of the client's obligation being credited to the client's ledger.
- **Auto-release, Restrictions and Extension:** The pledge which is not invoked or released within five trading days shall be automatically released by the depository at the end of the sixth trading day after pay-out. CUSPA pledged securities cannot be further pledged or transferred to banks/NBFCs for raising funds. Extension of the pledge may be sought in exceptional circumstances (including lower circuits or trading suspensions or halt due to surveillance, or any other valid reasons as recognized by MIIs) for up to one calendar week, with further extensions where justified, and clients must be informed of each extension. Such extension should be sought by the TM by 6 pm on the fifth trading day after pay-out, to extend the pledge by up to one additional calendar week.
- **Implementation:**
 - Stock exchanges must issue operational guidelines in consultation with depositories for implementation of the circular within 30 days.

- The amendments to the paragraphs 46.1–46.11 in the Master Circular concerning “Creation of pledge for unpaid securities”, “Policy by TM for handling unpaid securities”, “Release of pledge on the securities”, “Invocation of pledge”, “Auto-release of pledge”, and “Prohibition on further pledging/transferring CUPSA pledged securities” shall become effective three months after operational guidelines.
- The amendments to the paragraphs 46.12–46.14 in the Master Circular concerning “Extension of pledge in exceptional circumstances”, shall become effective six months from the circular.



ELP Comments

The revised framework seeks to strike a balanced approach between safeguarding clients' ownership rights and preserving the legitimate interests of trading members in recovering outstanding dues. By standardising the treatment of unpaid securities through the auto-pledge mechanism, requiring trading members to adopt transparent internal policies, introducing system-driven release of pledges, and permitting extensions only in objectively defined exceptional circumstances, SEBI has reduced operational ambiguities while strengthening investor protection.

At the same time, the recognition of industry representations and the incorporation of practical safeguards demonstrate a consultative and facilitative regulatory approach that addresses implementation challenges without compromising market integrity. Overall, the amendments are expected to bring greater consistency, operational certainty and efficiency in the handling of unpaid securities, thereby reducing compliance burdens for intermediaries while ensuring a more transparent and predictable experience for investors.

The circular 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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