

CIRCULAR

SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2022/153

November 11, 2022

To,

All Depositories

All Recognized Stock Exchanges

All Recognized Clearing Corporations

Madam / Sir,

Sub: **Handling of Clients' Securities by Trading Members(TM) / Clearing Members (CM)**

1. In order to protect clients' funds and securities and to ensure that the Stock Broker segregates securities or moneys of the client or clients and does not use the securities or moneys of a client or clients for self or for any other client, SEBI has issued various circulars from time to time.
2. SEBI, vide circular no. CIR/HO/MIRSD/DOP/CIR/P/2019/75 dated June 20, 2019, introduced the "client unpaid securities account" and inter-alia specified the following:
 - "4.2 With regard to securities that have not been paid for in full by the clients (unpaid securities), a separate client account titled – "client unpaid securities account" shall be opened by the TM/CM. Unpaid securities shall be transferred to such "client unpaid securities account" from the pool account of the concerned TM/CM.*
 - 4.3 The securities kept in the 'client unpaid securities account' shall either be transferred to the demat account of the respective client upon fulfilment of client's funds obligation or shall be disposed off in the market by TM/CM within five trading days after the pay-out. The unpaid securities shall be sold from the Unique Client Code (UCC) of the respective client. Profit/loss on the sale transaction of the unpaid securities, if any, shall be transferred to/adjusted from the respective client account.*

4.4 In case the clients' securities are kept in the 'client unpaid securities account' beyond seven trading days after the pay-out, the depositories shall under their bye-laws levy appropriate penalties upon such TM/CM which shall not be permitted to be recovered from the client."

3. In order to further streamline the process of handling of unpaid securities by TM/CM and also to prevent any kind of misuse of such unpaid securities, after extensive consultations with Exchanges, Depositories and Clearing Corporations, the following is decided:

- 3.1. All the securities received in pay-out, shall be transferred to the demat account of the respective clients directly from the pool account of the TM/CM within one working day of the pay-out.
- 3.2. With regard to the unpaid securities (i.e., the securities that have not been paid for in full by the clients), such securities shall be transferred to respective 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", which shall be opened by TM/CM.
- 3.3. After the creation of pledge, a communication (email / SMS) shall be sent by TM/CM informing the client about their funds obligation and also about the right of TM/CM to sell such securities in event of failure by client to fulfill their obligation.
- 3.4. If the client fulfills its funds obligation within five trading days after the pay-out, TM/CM shall release the pledge so that the securities are available to the client as free balance.
- 3.5. If the client does not fulfill its funds obligation, TM / CM shall dispose off such unpaid securities in the market within five trading days after the pay-out. TM/CM, before disposing the securities, shall give an intimation (email / SMS) to the client, one trading day before such sale.
- 3.6. The unpaid securities shall be sold in the market with the Unique Client Code (UCC) of the respective client. Profit/loss on the sale transaction of the unpaid securities, if any, shall be transferred to/adjusted from the respective client account.

- 3.7. TM / CM shall invoke the pledge only against the delivery obligation of the client. 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/CM's client unpaid securities pledgee account.
- 3.8. 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 in accordance with the SEBI Circular No. SEBI/HO/MIRSD/DOP/P/CIR/2021/595 dated July 16, 2021 and SEBI/HO/MIRSD/DoP/P/CIR/2022/109 dated August 18, 2022.
- 3.9. In case, such pledge is neither invoked nor released within seven trading days after the pay-out, the pledge on securities shall be auto released and the securities shall be available to the client as free balance without encumbrance.
- 3.10. Such unpaid securities pledged in client's account shall not be considered for the margin obligations of the client.
- 3.11. All the existing "client unpaid securities accounts" shall be wound up on or before April 15, 2023. The securities lying in such accounts shall either be disposed off in the market or be transferred to the client's demat account by the TM/CM accordingly, failing which such accounts shall be frozen for debit and credit.
4. Accordingly, the provisions with regard to client unpaid securities account, specified in SEBI Circular no. CIR/HO/MIRSD/DOP/CIR/P/2019/75 dated June 20, 2019 and SEBI/HO/MIRSD/ MIRSD_DP/IEA/P/CIR/2022/83 dated June 20, 2022 shall stand modified to the extent as stated hereinabove.
5. Stock Exchanges, Depositories and Clearing Corporations shall put in place appropriate systems to ensure compliance of the provisions of this circular.
6. The provisions of this circular shall come into effect from March 31, 2023.
7. Stock Exchanges, Depositories and Clearing Corporations are directed to:
 - 7.1. bring the provisions of this circular to the notice of their members / participants and also disseminate the same on their websites;

- 7.2. make necessary amendments to the relevant Bye-laws, Rules and Regulations for the implementation of the above decision.
- 7.3. communicate to SEBI, the status of the implementation of the provisions of this circular within 7 days of implementation and in their Monthly Development Reports.
8. This circular is issued in exercise of powers conferred under Section 11(1) of the Securities and Exchange Board of India Act, 1992, and Section 19 of the Depositories Act, 1996 to protect the interests of investors in securities and to promote the development of, and to regulate the securities markets.

Yours faithfully

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