

## **Pledge/ Re-pledge Mechanism**

From September 2020 onwards the mechanism of trading through use of shares as collateral is going to change. Clients desiring to take exposure by using their Demat holdings, will now have to pledge their holding in favour of the broker through which they trade as against the present mechanism where the shares of clients were physically transferred to the collateral account of the broker from the Demat account of the client.

### **Present mechanism**

Currently in case the client wants to trade in the capital market, he/she can do so by either transfer of funds or through transfer of demat holdings towards collateral/margin requirements to create positions. This happens through use of Power of attorney given to the broker on the demat account wherefrom the client need not give an instruction slip to transfer the holdings, instead the broker does so on behalf of the investor as this brings operational ease to the investor. The broker in turn utilizes the client collaterals by pledging the same to the Clearing Member/Clearing Corporations to get limits/margins for itself to fulfill the margin obligation of the client.

### **New mechanism workings**

In the new mechanism, clients holdings will not be physically transferred to the collateral account of the broker, instead it will only create a lien in favour of the broker through which the client wants to trade. This is referred as Margin Pledge. The broker in turn to get limits will further pledge the holdings in favour of Clearing Member/Clearing Corporations which is referred as Margin Re-pledge. The client will be able to view the status in the Demat holding as to how much is pledged and how much in turn is re-pledged by the broker. To create the pledge, the client may initiate request on his/her own or may confirm the request initiated by the broker through use of OTP (One Time Password) feature. The new process will help resolve both the major issues faced in existing mechanism whereby the only use broker can make is to re-pledge the pledged shares and not anywhere else and secondly the Clearing Member/Clearing Corporations will give limits to the broker only to the extent of client's margin requirement irrespective of the value of shares re-pledged by the broker. Apart from this transparency in new mechanism it give confidence to clients w.r.t. their holdings being safe. Brokers are mandated to release all the shares lying in their existing collateral account to the respective clients Demat account and close their collateral account and to take shares through new mechanism only post shift to the new mechanism,

The new framework would bring transparency in terms of handling the securities and shall surely boost the confidence and comfort at client's end.

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