



Pledge Re-pledge kya – kyu - kab - kaise

27-May-2020
Online

We start at 4:30 sharp ☺



Objectives of the seminar



- Improve understanding of the compliance and operational aspects of client securities collateral handling
- Raise issues/ suggestions for the attention of the authorities for consideration



Kya – current processes



- In derivatives segments, collection of upfront margins from clients is mandated since inception
 - For cash market from 30-Jun-2020
- Permissible manner of margin collections (securities)
 - A. Pledge in favour of broker (hardly used) OR
 - B. POA in favour of broker (popular) OR
 - C. Transfer to broker's collateral account (popular)
 - Also called Title Transfer Collateral Arrangement (TTCA)
- What brokers usually do in TTCA
 - Further transfer to PCMs/ pledge in favour of CC for limits



Kyo – why change



- In TTCA cases
 - Higher possibility of misuse
 - Clients are seen as careless about securities (compared to funds)
 - Some disturbing cases in recent past
- So, SEBI directives
 - A – Pledge allowed in new avatar (new pledge)
 - B - No to POA counted as margin
 - C – No to TTCA



Kab – Effective date of change



- SEBI circular ref. SEBI/HO/MIRSD/DOP/CIR/P/2020/28 dated 25-Feb-2020
 - A B C was to be implemented by 01-Jun-2020
- SEBI circular ref. SEBI/HO/MIRSD/DOP/CIR/P/2020/88 dated 25-May-2020
 - A (new pledge) and C (no TTCA) extended till 01-Aug-2020
 - B (no POA counting) will be implemented from 01-Jun-2020



Immediate implications – 1 Jun



- No permitting securities to lie with client and treating as margin collection
 - Convert to TTCA from 01-Jun, move securities from client account to Collateral account
 - This is a temporary activity for two months
- Else
 - Risk of reporting short margin of clients
 - Penalty on clients



Between today and 01-Aug



- Open new demat account
 - “Client Securities Margin Pledge Account”
 - One depository has permitted
- Complications
 - Inter depository pledge not permitted
 - Client may have demat account with any Depository
 - Open account in each depository ?
- Also
 - Segment wise separate accounts?
 - Where CMs or CCs are different - interop ?



Bhool mat jaana



- When you open a demat account
 - Inform the exchanges under ERBS
 - Update the Power of Attorney (send addendum to the clients)
- Also can:
 - Set auto pledge acceptance as yes (reduces work)
 - Set standing instruction to “No”
 - Client may transfer by mistake, you will have to return
- Back office readiness ? ☺



Between 1 Aug and 31 Aug



- Collateral accounts
 - No new TTCA from 01-Aug
 - Return old TTCA by 31-Aug
 - Close old collateral accounts by 31 Aug
- One month given to convert from TTCA to pledge
 - Sufficient ?



Kaise – the process



- Broad details provided in SEBI circulars
- CDSL first MII to issue detailed guidelines
 - Communiqué CDSL/OPS/DP/POLCY/2020/234 dated 22-May-2020
- Guidelines on the way from other MIIs
 - Clearing Corporations
 - Other depository



CDSL Process Flow - 1



- Open demat account
 - TMs to open “TM – Client Securities Margin Pledge Account (TM-CMPA)”
 - CMs to open CM – Client Securities Margin Pledge Account (CM-CMPA)
 - SCMs to open CM-CMPA
- You cannot convert an old account
- No need to fill full Account Opening Form
 - If you have a pool account with that CDSL DP



CDSL - Pledging system



- There is already a standard pledge form
- However, for Stock Market pledging, a special pledge form
 - Margin Pledge Request Form (MPRF)
- Special fields in MPRF

MARGIN PLEDGE / REPLEDGE REQUEST FORM (MPRF)

Setup of Margin Pledge Setup of Margin Re-Pledge Confirmation of Margin Pledge Confirmation of Margin Re-Pledge

Depository Participant Name / Address

Please fill all the details in **Block Letters** in English

MPRF No.	Date	D	D	M	M	Y	Y	Y	Y
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I/We request you to **create the margin pledge, re-pledge / confirm the creation of margin pledge / re-pledge for** the following securities. I/We have read and understood the Depositories Act, SEBI Regulations and the Bye Laws in relation to margin pledge of securities and I/We agree to abide by and be bound by the Act, Regulations and the Bye Laws as are in force from time to time for such pledges.

Pledgor's Details									
DP ID							Client ID		
UCC									
CMID									
CMID/CC CODE									
STOCK EXCHANGE		CLEARING CORPORATION					SEGMENT		
Pledgor's Name	1								
	2								
	3								

Pledgee's Details

DP ID							Client ID		
Pledgee's Name	1.								

Pledgee's Details

DP ID								Client ID					
Pledgee's Name	1.	2.	3.										

Details of Securities: **Free Securities** **Locked-in Securities**

Details of Securities offered for Margin Pledge/Margin Repledge

Sr. no	ISIN	Company Name	Quantity	Date of Release (lock-in)	PSN (System Generated)	Accepted / Rejected by Pledgee	Pledged value

Attach an annexure duly signed by the account holder(s), if the space above is insufficient.

Pledge Execution Date	D	D	M	M	Y	Y	Y	Y
Pledge Expiry Date	D	D	M	M	Y	Y	Y	Y
Total Pledge Value (Rs.)								
Agreement No.								
Date of Pledging	D	D	M	M	Y	Y	Y	Y

Note : As a pledgor and pledgee, We are aware that the margin pledge / re-pledge recorded in the system only prohibits the Pledgor from dealing with securities until redemption/maturity/expiry date of the securities margin pledged and that the records of margin pledged securities may be removed from the system as a result of redemption/maturity/expiry of the securities.

To be filled and signed in case of Set-up of Margin Pledge Re-pledge by Pledgor BO

Signature of the Pledgor

First/ Sole Applicant	Second Applicant	Third Applicant



CDSL - Pledging process flow



- Stage A – Margin pledge (MP)
 - Client pledges to Trading Members (TM)
- Stage B – Margin Re-pledge (MRP)
 - TM re-pledges to Clearing Member (PCM)
- Stage C – Margin Re-pledge (MRP)
 - PCM re-pledges to Clearing Corporation (CC)
- Note
 - Stage B will not happen in case of Self Clearing Members
 - Stages B and C are optional



How will MP be created



- Three ways of MP creation
 - TM initiated MP creation (using POA)
 - Client initiated MP creation (online through easiest)
 - Client initiated MP creation (offline filling physical form)



TM initiated MP (using POA)



- TM will use POA to set up a pledge
- Client will get OTP on email and mobile (per DP records)
 - Client will enter BOID, PAN and Date of Birth/ incorporation and then OTP to confirm the MP
 - TM / CM can also setup MP through easiest
 - Ensure grouping + Master POA ID in easiest
- Check:
 - Is email/ mobile up to date in DP?
 - Is client registered for SMS alert?



TM initiated MP (using POA)



- Check the wording of the POA
- POA given by the client should authorize the TM/CM to pledge securities from client's account for the purpose of margin / collateral
 - Common mistake



Validations for MP creation



- For MP
 - Active UCC-Segment combination present in the linked UCC
 - UCC details cannot be modified /deleted where there is an active MP
- For MRP to CM
 - Existence of CM-TM Link approved by CC
- For MRP to CC
 - Part of approved list (CC will check)



Pledging broker's own shares



- From proprietary demat accounts
 - TM to pledge from own account to own TM-CMPA
 - CM to pledge from own account to own CM-CMPA
- Then routine chain to follow
- PRO/ OWN a “virtual client” of Broker



Pledging chain



- TM can further pledge to PCM
 - In full or parts
- PCM can further pledge to CC, subject to:
 - Approved list
 - CM wise limits
 - Market wide limit
- No client OTP required for MRP
 - Clarified



How will CC give limits (per SEBI)



- CC shall not monitor the client level exposure against the available client level collateral in real time
 - Responsibility of the CM
- CC shall initially not allow any exposure to the CM on re-pledged securities
 - CC shall first block CM collateral
 - At periodical interval (latest by end of day), CC shall release the blocked securities collateral of CM to the extent of re-pledged securities collateral of that client
 - Oops . . . !



Process of unpledging



- The pledgor requests the unpledge
 - Margin Unpledge Request Form (MURF) to be filled
 - The Pledgee confirms the unpledge
 - Pledgee can also release suo moto
- For downstream release
 - Upstream has to release first
- Release in parts possible



Process of invocation



- TM to provide Margin Pledge Invocation Form (MPIF)
 - SCMs too
- Where repledged
 - Upstream chain has to release before invocation
- Invocation will move securities into CMPA
 - Probably the only permitted manner of entry into this account
 - Then to pool account for pay-in or return to client
- Invocation in parts permitted
- Invocations will be monitored



More on invocation



- TM can invoke
 - If client defaults
- PCM can invoke
 - When TM defaults AND
 - That client of TM has **open positions**
- CC can invoke
 - When CM defaults AND
 - That client securities has **open positions**
 - CM's own securities will be used first
- No position, no invocation by CM/ CC



Non-cash Corporate Actions



- Master Type 1 (fixed ratio cases, e.g. restructuring/ split)
 - Auto pledge of new ISIN(s)
- Master Type 2 (Bonus, etc.)
 - Auto pledge of bonus shares
- Rights Entitlement?
 - No Auto pledge ☺



Margin Trading – SEBI circular



- Funded shares in Margin Trading to be kept in separate demat account:
 - Called “Client Securities under Margin Funding Account”
 - Cannot be pledged further
 - New account ?
- Collateral shares for Margin Trading
 - Through pledge only
- Operational guidelines awaited
 - Deadline 01-Aug-2020



Silly questions in my mind



- Stamp Duty on margin pledge? On re-pledge?
 - Applicable? How much?
- What if TM changes the CM/ becomes SCM?
 - Unpledge all and repledge all? OTP again?
- Pledged securities attached by authorities
 - Impact on Risk Management?
- Release of pledge
 - How quick and efficient?
- OTP system does not work?



Q&A – Please type





BBF webinar series – upcoming



- Thursday 28-May-2020 - 4:30 pm
 - New Margin calculation methodology
 - Panelist speakers from ICCL and NCL
- Saturday 30-May-2020 - 11:00 am
 - E-KYC
 - Panelist speakers from MII associated KUAs/ SEBI