

## **SEBI Circular on Creation/Invocation of Pledge of Securities through Depository System**

SEBI vide its Circular No. HO/47/14/12(1)2026-MRD-POD2/I/4229/2026 dated February 05, 2026 has strengthened the regulatory framework governing the creation and invocation of pledges of securities through the depository system.

The circular builds upon paragraph 4.13 of the SEBI Master Circular for Depositories dated December 3, 2024 read with Regulation 79 of the SEBI (Depositories and Participants) Regulations, 2018, and aligns the depository mechanism with the rights and obligations contemplated under Sections 176 and 177 of the Indian Contract Act, 1872.

### *❖ Key Regulatory Clarifications and Amendments*

- Depositories are required to align their pledge framework with Sections 176 and 177 of the Indian Contract Act, 1872, which govern the rights and obligations of the pawnor and pawnee, including the requirement of reasonable notice before sale of pledged securities.
- New paragraphs 4.13.3 to 4.13.5 have been inserted in the Master Circular to operationalise these contractual law requirements within the depository system.

### *❖ Undertakings in Pledge Request Forms*

- The Pledge Request Form must now include explicit undertakings from both pledger and pledgee:
  - The pledgee must undertake to provide reasonable notice to the pledger and comply with Sections 176 and 177 of the Indian Contract Act, 1872.
  - Both parties must undertake to comply with applicable laws, including the Indian Contract Act, the Depositories Act, SEBI regulations, circulars, and depository bye-laws.
- Depositories are mandated to maintain a standardised format of the Pledge Request Form.

### *❖ Invocation of Pledge – Enhanced Transparency*

- At the time of invocation of pledge:
  - Depositories must send an intimation/notification to both pledger and pledgee.

- The notification must confirm that the pledge has been invoked and that the pledgee has been recorded as the beneficial owner, in terms of Regulation 79(8) of the DP Regulations.

❖ *Obligations of Depositories*

- Depositories are advised to:
  - Amend their bye-laws and rules to give effect to the circular.
  - Carry out necessary system changes, where required.
  - Inform their participants and disseminate the circular on their websites.
- The circular must be implemented on or before 6 April 2026.

❖ *Statutory Authority*

- The circular is issued under Section 11(1) of the SEBI Act, 1992, read with Section 26(3) of the Depositories Act, 1996 and Regulations 79 and 97 of the DP Regulations, with the objective of investor protection and orderly development of the securities market.

❖ *Why This Circular Was Needed*

- The depository-based pledge mechanism operated largely as a procedural and system-driven process, without explicitly embedding the contractual safeguards mandated under the Indian Contract Act, particularly the requirement of reasonable notice prior to enforcement.
- There was regulatory ambiguity on whether compliance with depository procedures alone was sufficient, potentially exposing pledgers to enforcement actions without adequate notice or legal recourse.

❖ *Impact and Changes Introduced*

- The circular bridges the gap between securities law and contract law, ensuring that invocation of pledge through depositories does not dilute statutory rights of the pledger.
- It enhances investor and pledger protection, improves transparency at the time of invocation, and imposes greater accountability on pledgees, while also standardising documentation and processes across depositories.

**LINK:**

[https://www.sebi.gov.in/web/?file=https://www.sebi.gov.in/sebi\\_data/attachdocs/feb-2026/1770291682029.pdf#page=1&zoom=70,-138,496](https://www.sebi.gov.in/web/?file=https://www.sebi.gov.in/sebi_data/attachdocs/feb-2026/1770291682029.pdf#page=1&zoom=70,-138,496)