

VII. PLEDGE OF DEMAT SECURITIES

1. What is meaning of Pledge?

Pledge is an activity of taking loan against securities by the investor. The investor is called as 'pledgor' and the entity who is giving the loan against the securities is called as 'pledgee'.

2. Can securities in demat mode be pledged?

Yes. Procedure for pledging securities in demat form is very convenient, both, for the pledgor and the pledgee. Moreover, a pledgor may be able to obtain higher loan amounts, with lower rate of interest for securities in demat form as compared to securities held in physical form.

3. What is the procedure for pledging securities?

- a. The pledgor and the pledgee must have BO accounts with CDSL. These accounts can be with the same DP or with different DPs.
- b. The pledgor has to fill up the Pledge Request Form (PRF) in duplicate available with his DP.
- c. On receipt of the PRF, the pledgor's DP shall verify that the securities can be pledged. The DP then sets up a pledge in the depository system and a unique Pledge Sequence No. (PSN) will be generated. The PSN number should be recorded on the PRF. Authorized official of the DP should sign the PRF and stamp it. A copy of the PRF is then given to the pledgor.
- d. One copy of PRF (with the PSN) should be sent to the pledgee by the Pledgor. The Pledgee will then countersign the PRF for acceptance/ rejection of the pledge request and submit the PRF to his DP.
- e. The pledgee's DP has the facility to access the request on line. Based on copy of PRF the pledgee's DP either accepts or rejects the pledge request.

4. In physical form pledged shares have to be handed over to the pledgor. What happens when dematerialized securities are pledged?

When dematerialized securities are pledged, they remain in the pledgor BOs demat account but they are blocked so that they can not be used for any other transaction.

5. How are the securities unpledged in the depository system?

- a. The pledgor has to fill up the Unpledge Request Form (URF) in duplicate.
- b. On receipt of the URF, the pledgor's DP sets an unpledge request in the depository system using the PSN generated at the time of creating the pledge. An unpledge request can be for part or entire quantity of pledged securities.

- c. One copy of URF (with the PSN) should be sent to the Pledgee by the Pledgor. The Pledgee will then countersign the URF for acceptance/ rejection of the unpledge request and submit the URF to his DP.
- d. The pledgee's DP has the facility to access the request on line. Based on copy of URF the pledgee's DP either accepts or rejects the unpledge request.
- e. The securities can also be unpledged by the Pledgee giving duly filled URF to his DP instructing to unpledge the securities. This facility is called "Auto Unpledge" where no instruction is required to be given by the Pledgor.

6. How is a pledge invoked?

In case of default by the pledgor or any other reason agreed by pledgor and pledgee, the pledgee, after giving notice to the pledgor as per the terms of the agreement, may instruct his DP to invoke the pledge. The pledgee BO has to submit a "Invocation Request Form" (IRF). On execution of this instruction, the securities are transferred into the pledgee's account. Invocation does not require any confirmation from the pledgor.

7. Can all types of securities be pledged?

Technically all types of securities can be pledged. It depends on pledgee to accept a security for pledge or not.

8. Can lock-in securities be pledged?

CDSL system permits pledging of lock-in securities to be pledged. However, it is the option of the pledgee to accept such securities in pledge. A security under lock-in can be invoked by the pledgee only after the lock in period is over.

9. Who receives corporate benefits on the pledged securities?

The pledgor continues to remain the beneficial owner of the pledged securities and will, therefore, be receiving the corporate benefits during the period of pledge.

10. Can the physical securities pledged with a bank be dematerialized?

The pledged securities can be dematerialized with the prior permission of the pledgee bank.