

CREATION/INVOCATION OF PLEDGE OF SECURITIES THROUGH DEPOSITORY SYSTEM



Circular no.: HO/47/14/12(1)2026-MRD-POD2/I/4229/2026

Date of Issue: February 05, 2026

1. The Update

SEBI has introduced stricter compliance norms for the pledging of shares to protect the rights of borrowers (pledgers). The key change mandates that lenders (pledgees) must explicitly commit to giving "reasonable notice" before selling off pledged shares, aligning depository rules with the Indian Contract Act, 1872.

2. Key Changes Implemented:

- **Mandatory "Notice of Sale" Undertaking:** The Pledge Request Form must now include a specific undertaking by the lender (pledgee) to provide reasonable notice to the borrower (pledger) before invoking the pledge or selling the assets. This clause ensures compliance with the rights of the pawnor and pawnee under Sections 176 and 177 of the Indian Contract Act, 1872.
- **Standardized Format:** Depositories are mandated to maintain a standardized format for this new Pledge Request Form to ensure uniformity across the system.
- **Transparency on Invocation:** Upon the actual invocation of a pledge, the Depository must now send an immediate intimation/notification to both the pledger and the pledgee. This notification serves as official confirmation that the pledge has been invoked and the pledgee has been recorded as the "beneficial owner" of the securities.

3. Why this matters

Previously, disputes often arose when lenders sold pledged shares without sufficient warning during market volatility. This circular legally enforces that the pledgee undertakes to provide "reasonable notice" to the pledgor, preventing arbitrary sales without prior communication.

4. Compliance Timeline

- **Action Required By:** All Depositories & Participants - to make necessary amendments to bye-laws and rules, system changes, and disseminate on their websites.
- **Deadline:** All the necessary by-law amendments and system changes must be implemented **on or before April 6, 2026**. [Click here to read the SEBI Circular](#)

KNOWLEDGE DESK

~**Abutalib Syed**
(Knowledge Executive)

~**Huzefa Kaka**
(Executive Director)