

SEBI mandates enhanced compliance for pledge & invocation of securities through depository system, ensuring adherence to Indian Contract Act

The Securities & Exchange Board of India (SEBI) vide its Circular No. HO/47/14/12(1)2026-MRD-POD2/I/4229/2026 dated February 06, 2026, has addressed the framework for pledging of shares through the depository system as prescribed in paragraph 4.13 of the SEBI Master Circular for Depositories dated December 03, 2024, read with Regulation 79 of the Securities and Exchange Board of India (Depositories and Participants) Regulations, 2018 (DP Regulations). It requires depositories to make provisions in their respective bye-laws for the manner of creating and invoking a pledge in accordance with Section 12 of the Depositories Act, 1996 and the DP Regulations.

The Circular referred to Sections 176 and 177 of the Indian Contract Act, 1872, which lay down the rights of the pawnor and pawnee, and require the pawnee to give a reasonable notice of sale to the pawnor prior to selling the pledged assets. In order to ensure compliance with these provisions in the framework for pledge of securities through depositories, the Circular mandates the insertion of additional paragraphs after paragraph 4.13.2 in the Master Circular.

Specifically, the Pledge Request Forms of the depositories must provide for the pledger and pledgee to undertake that the pledgee will provide reasonable notice to the pledger and comply with the requirements of Sections 176 and 177 of the Indian Contract Act, 1872. Both parties must also undertake to abide by the provisions of the Indian Contract Act, 1872, the Depositories Act, SEBI Regulations, circulars, and bye-laws in force from time to time, as may be applicable.

The depositories are required to maintain a standardized format of the Pledge Request Form. At the time of invocation of pledge, the depositories must send an intimation or notification to both pledger and pledgee confirming that the pledge has been invoked and the pledgee has been recorded as “beneficial owner” in terms of Regulation 79(8) of the DP Regulations.

Depositories are also advised to make necessary amendments to relevant bye-laws and rules, carry out system changes if required, and bring the provisions of this circular to the notice of their participants and disseminate the same on their websites. The provisions of this circular are to be implemented on or before April 6, 2026.

[Click here to read/ download the original circular](#)