



Central Depository Services (India) Limited

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COMMUNIQUÉ TO DEPOSITORY PARTICIPANTS

CDSL/OPS/DP/2094

August 23, 2010

SEBI LETTER DATED AUGUST 17, 2010 PLEDGE OF SHARES THROUGH DEPOSITORY SYSTEM

DPs are advised to review the contents of SEBI letter no. **MRD/DoP/MAS-OW/16723/2010** dated August 17, 2010 attached [see **Annexure-A**], regarding pledge of shares through the depository system, wherein SEBI has communicated its observation that, in the depository mode, many entities (including promoters) are transferring shares through the off-market option and stating these transfers as “pledge”.

DPs are advised to refer to the following guidelines which enumerate the manner of creating pledge:

1. Regulation 58 of the SEBI (Depositories & Participants) Regulations, 1996

CDSL's website link: [SEBI-\(D-and-P\)-Regulations-1996.pdf](http://www.cdslindia.com/SEBI-(D-and-P)-Regulations-1996.pdf)

2. Section 12 of the Depositories Act, 1996

CDSL's website link: [Depositories-Act-1996.pdf](http://www.cdslindia.com/Depositories-Act-1996.pdf)

3. CDSL's Bye Laws – Bye Law No. 14

CDSL's website link: [CDSL-Bye-Laws.pdf](http://www.cdslindia.com/CDSL-Bye-Laws.pdf)

4. CDSL's DP Operating Instructions, Chapter 8: Pledge & Hypothecation

CDSL's website link: [CDSL-DP-Operating-Instructions-June-2010.pdf](http://www.cdslindia.com/CDSL-DP-Operating-Instructions-June-2010.pdf)

As directed by SEBI in the abovementioned letter, DPs are advised:

- Ü to inform their BOs about the **procedure for pledging of shares held in demat form** as enumerated in the abovementioned provisions of law / operating instructions and no other process/procedure shall be considered as pledge by the Depository.
- Ü to note that **an off-market transfer of shares leads to the change in ownership and cannot be treated as pledge.**

Queries regarding this communiqué may be addressed to **CDSL – Helpdesk** on (022) 2272-8642, 2272-8427, 2272-8624, 2272-8693, 2272-8625, 2272-8639, 2272-8663, 2272-1261 or 2272-2075. Emails may be sent to: helpdesk@cdslindia.com.

sd/-

Ramkumar K.
Vice President – Operations



DEPUTY GENERAL MANAGER
Market Regulation Department – Division of Policy
Email: harinib@sebi.gov.in

भारतीय प्रतिभूति
और विनिमय बोर्ड

**Securities and Exchange
Board of India**

MRD/DoP/MAS – OW/16723/2010

August 17, 2010

Mr. Samar Banwat,
Vice President
National Securities Depository Ltd.
Trade World, Kamala Mills Compound
Senapati Bapat Marg, Lower Parel
Mumbai, 400013



Mr. Ram Kumar
Vice President – Operations,
Central Depository Services (India) Ltd.,
17th Floor, P J Towers,
Dalal Street, Fort,
Mumbai, 400001

Dear Sir:

Sub : Pledge of Shares through depository system

1. It is observed in the present depository mode that many entities (including promoters) are transferring shares off-market and these transfers are stated as pledge. As you are aware, under the Depositories Act, the beneficial owner is a person in whose account shares are held. However, the aforesaid off-market transfer will lead to change in beneficial ownership and therefore cannot be termed as pledge.
2. Further, Section 12 of the Depository Act and Regulation 58 of the SEBI (Depositories and Participants) Regulations, 1996 along with the relevant Bye Laws of the Depositories clearly enumerate the manner of creating pledge. It is felt that there is a need to communicate to the BOs that any procedure followed other than as specified under the aforesaid provisions of law shall not be treated as pledge.
3. In order to clarify the same, you are advised to issue a communiqué to the DPs advising them to inform BOs about the procedure for pledging of shares held in demat form as enumerated in the relevant sections of the Depositories Act and SEBI (Depositories and Participants) Regulations, 1996. You may also advise DPs that an off-market transfer of shares leads to change in ownership and cannot be treated as pledge. Further, this issue may also be taken up in your investor awareness programs wherein the manner of creation of pledge can be effectively communicated to the BOs directly.

Yours faithfully,

Harini Balaji