

# Asit C. Mehta

## INVESTMENT INTERMEDIATES LTD.

Corporate Member: BSE Ltd, National Stock Exchange of India Ltd.

Regd. Office : "Nucleus House", 5th Floor, Saki-Vihar Road, Andheri (E), Mumbai - 400 072. Maharashtra, INDIA.  
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## POLICY ON "CLIENT UNPAID SECURITIES PLEDGEE ACCOUNT

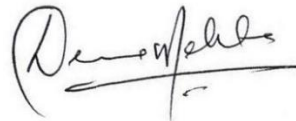
Sr. No.	Particulars	Person preparing/reviewing	Person Reviewing
1.	Policy prepared	Compliance Team	Jaideep Vaidya
2	Policy Checked by Processing Team	Risk Team and Post Trade Team	Keyur Mehta Latha Shetty
3	Policy Approved	Managing Director	Deena A Mehta

**Policy Prepared by  
Compliance Officer**



**Jaideep Vaidya**

**Policy Approved by  
Managing Director**



**Deena A Mehta**

**Date: 30/04/2024**

**Place: Mumbai**



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### What is a Client Unpaid Securities Pledgee Account (CUSPA)?

In order to further streamline the process of handling client securities and prevent misuse, SEBI has mandated brokers to open a Client Unpaid Securities Pledgee Account (CUSPA). The framework will come into effect from 1st April 2023.

- Equity trades are settled on T+1, where T refers to the trade day.
- Brokers are required to credit securities to the buyer's account within 1 working day of the settlement day. ACMIIL generally completes this on the settlement day itself.
- If the buyer fails to meet his fund obligation by the settlement day, the securities will be transferred to the buyer's demat account along with the creation of an auto-pledge in favour of ACMIIL's Client Unpaid Securities Pledgee Account (CUSPA).
- Shares worth 125% of the net debit will be held as pledged in ACMIIL's CUSPA and the remaining shares will be released to the buyer's demat account on T+1.
- Pledge charges are applicable and the defaulting buyer will be notified via email/SMS regarding their fund obligation.
- If the client fulfills the fund obligation within 4 trading days from the pay-out day (T+1+3), the pledge will be released and the securities will be available as free balance in the client's demat account.
- If the client fails to fulfill the fund obligation within 4 trading days from the pay-out day (T+1+3), the securities will be sold in the market on T+1+4 to recover debits or dues, including penalties, interest, DP charges, etc.
- In situations of payment or delivery failure by the pay-in day, losses and costs are borne by the defaulting party.
- Note that such unpaid securities will not be considered to calculate the margin obligation of the defaulting party.
- To avoid any kind of margin shortage, positions (including derivatives) may be square-off on any of these days. Therefore, it is advisable to ensure timely fulfillment of your fund obligations to avoid any unnecessary losses or risks.

**For example**, Mr Ajay purchased 100 shares of Axis Bank at Rs. 700 per share using margins, on Monday (T). He fails to meet a fund obligation of Rs. 70,000 on Tuesday (T+1). As a result, the purchased 100 shares are auto-pledged in favour of ACMIIL's CUSPA.

He will have time to bring in funds to cover his position till Monday (T+1+4). If he fails to do so, CUSPA will sell these 100 shares on T+1+5 to recover the debit. Mr Ajay will be liable to pay any applicable charges.

SEBI has been stipulating many regulatory changes with respect to Pledge and Margin requirement. Exchange has come out with circular dated April 05, 2024 wherein it is



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clarified that unpaid securities pledged in favor of CUSPA account of member (reduced by the appropriate haircut subject to minimum 20%) may be considered for collection and reporting of margin by member to the extent of debit balances in client ledger arising out of buying obligation of such securities.

### What is CUSPA (Client Unpaid Securities Pledgee Account)?

For Indian investors, navigating the intricacies of the stock market can sometimes involve unfamiliar terms. One such term that has recently gained prominence is the Client Unpaid Securities Pledgee Account (CUSPA). This blog delves into the world of CUSPA, explaining its purpose, functioning, and potential implications for investors.

### What are unpaid securities?

Prior to April 1, 2023, a potential issue existed when investors purchased securities but failed to fulfil their payment obligations. This could create complexities in the settlement process and pose challenges for brokers. To address this, the Securities and Exchange Board of India (SEBI) introduced the CUSPA framework.

### What is CUSPA?

CUSPA, or Client Unpaid Securities Pledgee Account, is a special type of account maintained by trading members (brokers) at depositories (NSDL or CDSL). Its primary purpose is to hold unpaid securities purchased by clients who haven't completed the payment process.

### How does CUSPA work?

Here's a breakdown of the CUSPA mechanism:

- **Transaction Initiation:** An investor initiates a trade to buy securities.
- **Settlement Obligation:** The broker has a T+1 (settlement day) obligation to deliver the purchased securities to the investor's demat account.
- **Payment Failure:** If the investor fails to make the required payment for the purchased securities within a specified timeframe (typically T+3 days), the unfunded securities are transferred to the broker's CUSPA account.
- **Auto-Pledge:** These unfunded securities are automatically pledged in favour of the CUSPA account, essentially acting as collateral for the outstanding payment.

### What happens if your securities are in CUSPA?



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Once the securities are in CUSPA:

- **Notification:** The broker is obligated to notify the investor about the non-payment and the transfer to CUSPA.
- **Payment Window:** The investor has a limited window (usually a few days) to make the payment and have the securities transferred back to their demat account.
- **Non-Payment Consequences:** If the investor fails to settle the dues within the specified timeframe, the broker has the right to sell the pledged securities on the stock exchange to recover the outstanding amount.

### Benefits of CUSPA

- **Streamlined Settlement:** CUSPA ensures a smoother settlement process by holding unpaid securities and facilitating easier recovery for brokers.
- **Transparency:** The auto-pledge feature provides transparency to investors regarding the status of their securities and potential consequences of non-payment.
- **Reduced Risk:** By holding unpaid securities as collateral, CUSPA mitigates the risk of brokers incurring losses due to client defaults.

### Investor considerations with CUSPA

- **Timely Payments:** Investors need to be aware of their payment obligations and ensure timely settlements to avoid their purchased securities being transferred to CUSPA.
- **Monitoring Account:** If you invest in stocks, then regularly monitoring your demat account activity is crucial to identify any potential CUSPA transfers due to payment failures.
- **Communication with Broker:** Open communication with your broker regarding any payment delays or challenges can help avoid unnecessary complications related to CUSPA.

### Conclusion

The introduction of CUSPA has streamlined the settlement process in the Indian stock market. While it protects brokers from potential losses, investors need to be aware of their obligations and the implications of non-payment. By understanding CUSPA and maintaining a responsible approach to settlements, investors can ensure a smooth and hassle-free trading experience.

