

Clients' Unpaid Securities Pledgee Account (CUSPA) Policy

1. Background and Purpose

This SOP/Policy defines the processes for managing unpaid securities under the **Clients' Unpaid Securities Pledgee Account (CUSPA)** framework at Zerodha. It is aligned with SEBI circulars:

- SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2022/153 (dated November 11, 2022)
- SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2024/75 (dated June 5, 2024)

The purpose is to ensure regulatory compliance, safeguard client interests, and manage risks arising from unsettled trades.

2. Scope

This SOP/Policy applies to all **equity settlement obligations (T+1)** where a client has not provided sufficient funds to settle trades.

3. Key Principles

1. **Pledge Coverage:** Securities equal to **120% of the client's debit balance** are pledged into CUSPA. This could sometimes be more than 120% depending on market conditions, as decided by the Risk Management team.
2. **Automated Pledge:** From **February 24, 2025**, clearing corporations directly credit securities into clients' demat accounts; unpaid securities are simultaneously pledged in favour of Zerodha's CUSPA (DP ID: 1208160099729790).
3. **Charges:** Standard charges for pledge, unpledge, invocation, and liquidation apply.
4. **Client Rights:** Clients may independently liquidate pledged securities at any time.
5. **Auto-Release:** Uninvoked or unreleased pledges automatically release after **seven working days**, as per SEBI rules.

4. Daily Operational Workflow

T Day (Trade Date)

- **Notification:** Clients receive communication regarding the securities bought and a reminder to maintain sufficient funds.

T+1 (Start of Day)

- Automatic Pledge:
 - Securities equal to **120% of the client's debit balance** are pledged to CUSPA.
 - This occurs before 9:00 AM, based on the previous day's (EOD) balances.
 - No manual client instruction is required.
- Client Obligation Window:
 - By **5:00 PM**, if the client clears the debit, pledged securities are marked for unpledge.
 - **Unpledge Execution:** Carried out post-market closure.

Note: Since ledger updates occur at EOD and unpledge is executed intra-day, temporary mismatches may occur (e.g., positive balance with active CUSPA pledge). These are resolved on the next trading day.

T+2 (Second Day Post Trade)

- Unsettled Debit:
 - If obligations remain unpaid, pledged securities are subject to **liquidation**.
- Client Alerts:
 - Clients are notified via **SMS and Email** regarding pending liquidation.

T+2 onwards:

- Liquidation Process:
 - Zerodha may liquidate pledged securities to recover debit balances and applicable charges.
- Client Right to Liquidate:
 - Clients may also choose to liquidate pledged securities themselves at any time.

5. Special Handling and Exceptions

1. Daily Unpledge Operations:
 - After market closure each day, securities are unpledged based on the latest ledger balance.
 - Fund deposits made after the cutoff may not immediately trigger an unpledge; these are captured in the next cycle.
2. Five-Day Settlement Window:
 - Clients making payments within **five trading days post-payout** are eligible for pledge release, subject to reconciliation.
3. Transit Funds:
 - Funds in transit (e.g., pending ledger updates) may cause temporary pledge mismatches, which are rectified in the next processing cycle.

6. Client Communication Protocol

- **T Day:** Trade notification and reminder to maintain sufficient funds.
- **T+1:** Margin calls.
- **T+2 onwards:** Alerts on possible liquidation if debit persists.

7. Compliance and Audit

- All processes adhere to SEBI guidelines and clearing corporation procedures.
- Internal reconciliations of holdings, pledges, and client balances are performed **daily**.
- Exceptions or discrepancies are documented and reported in line with internal risk and compliance standards.

8. Review and Updates

This SOP/Policy is subject to revision based on:

Zerodha Broking Ltd., #153/154, 4th Cross, Dollars Colony, Opp. Clarence Public School, J.P Nagar 4th Phase, Bengaluru - 560078, Karnataka

- SEBI circulars and clarifications,
- Changes in clearing corporation procedures,
- Internal risk management requirements.

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|------------------------|----------------|
| Policy drafted by | Sameer Sait |
| Policy reviewed by | Venu Madhav |
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