



## **Rules on Pledging of Securities**

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## 1. Pledging of Securities

Pledging here refers to an activity in which the borrower (Pledgor) of funds uses securities as a form of collateral to secure the funds it borrows from the lender (Pledgee).

Pledging is a secondary market activity in which securities are provisionally moved from the Pledgor's securities account to the Pledgee's securities account to back a debt facility as a form of collateral. When securities are pledged, the Pledgee maintains possession of the pledged securities; however the Pledgee does not have full ownership or title to the pledged securities unless default takes place.

## 2. Who can Pledge securities?

Individuals and institutions/legal entities holding securities deposited in the MSD can pledge securities.

Pledging establishes a mechanism for Securities holders to pledge their securities, against any personal / business loans from financial institutions. This would ensure that Investors have a mechanism to access additional financing without liquidating the investments in the Securities market, in compliance with these rules.

## 3. Rational for Securities pledging

This service is provided by MSD to market participants to allow a Pledgor to use securities as collateral or guarantee to borrow funds from a Pledgee / creditor. The purpose of using securities as collateral is to facilitate borrowing and lending guaranteed or backed by securities as a way to improve capital market activities.

## 4. Stakeholders:

- a. Investor (Pledgor)
- b. Dealers (Depository Participant)
- c. Natural Persons and Financial Institutions (Pledgee)
- d. Maldives Securities Depository

## 5. Process for Application:

- a. Pledgor:
  - i. Pledgor must have an MSD Account.
  - ii. The securities to be pledged must be deposited to MSD Account.
  - iii. Open a Pledge Account with MSD (Applicable to new pledgors only).
  - iv. Submit completed Securities Pledge form to MSD with the below supporting documents.
    1. Completed Securities Pledge form





2. In the case of a legal entity, a certified copy of a resolution from the board of directors / Governing body of the legal entity approving the pledge of the securities and transfer of the pledged securities to the Pledgee's account for the pledged period.
  - v. Pledgor must submit the Pledge Notice to the Pledgee.
  - vi. The Pledge Notice issued by MSD will be valid for a period of 2 months from the issue date.
- b. Pledgee:
- i. Pledgee (Financials Institution) shall be a lending institution licensed by Maldives Monetary Authority or any other lending institution licensed by the respective central bank of the country which must be registered with MSD by submitting the Pledgee form.
  - ii. Pledgee (natural person) shall have a pledge agreement signed with the pledgor witnessed by at least two individuals. The agreement shall also include the terms of the pledge including details of the maturity of pledge, terms for pledge release, pledge call and entitlements to the pledged securities.
  - iii. Pledgee must have an MSD Account for the purpose of transfer of securities in the case of default except where a Dealer is appointed as the holder of the pledge on behalf of the Pledgee.
  - iv. Pledgee may accept several Pledgors / (group pledge) to service a lending arrangement. In such a case the Pledgee will use several pledge notices which would be given the same agreement number.
  - v. Forward completed and duly signed Pledge Notice to MSD latest by 12:00 pm on a working day. Pledge will be effective at 08:30 am next working day.
  - vi. Notify to MSD 5 (Five) working days prior to the maturity date of the pledge, to release the pledge on the date of maturity by submitting the completed duly signed pledge release / call form (Annex 3)
  - vii. Notify to MSD in writing immediately of any extension given to the Pledgor for the term of the debt facility.
- c. MSD
- i. MSD shall verify the Securities Pledge application for conformity with the rules and regulations.
  - ii. MSD will identify if the Pledgor has sufficient securities as stated in the Application form. MSD will reject any pledge if there are insufficient securities in the Pledgor's securities account.
  - iii. Verify signature with the records of MSD.
  - iv. Freeze the Securities upon receipt of Pledge Notice signed by the Pledgee for further dealings until the pledge is released.
  - v. MSD shall maintain an up-to-date register of the active pledges.



d. Dealer

- i. Dealers offering services under this rule, shall open a pledge account with MSD.
- ii. A Pledgee may appoint a dealer (depository participant) for the purpose of holding a pledged security in the event of default.
- iii. In such a case, the depository participant shall sign the pledge form acknowledging that the securities will be transferred to them in the event of default as may be directed by the Pledgee.
- iv. Appointed depository participant will hold the pledge on custody for the Pledgee in the event of a default. All rights of the pledged securities will remain with the Pledgee.
- v. Appointed depository participant will hold the pledge on custody for the Pledgee in the event that the rights to the pledged securities are transferred to the Pledgee.
- vi. The depository participant shall deal in the pledged securities as maybe directed by the Pledgee. All such communications shall be made in writing to the depository participant.

**6. Entitlements of the Pledged Securities:**

- a. Pledged Securities will be transferred to a Pledge Account opened in the name of the Pledgor. The Securities in this Account will not be available for ownership changes until such time as Pledgee releases the pledge.
- b. The benefits including dividends, profit payments, coupon payments and other rights associated with ownership of pledged securities shall accrue to the Pledgor unless in the event of default or unless otherwise agreed between the Pledgor and Pledgee with regard to any such rights.

**7. Release of Pledged Securities:**

- a. MSD shall release the pledge in favor of the Pledgor, only in the case where Pledgee requests to release the pledge to MSD. MSD will not further verify that the obligations of the Pledgor have been discharged or that alternate collateral has been furnished upon receiving request of the Pledgee to release the pledge.
- b. Where an early release of pledge is required, the Pledgee shall inform MSD, instructions to release the pledge in favor of the Pledgor before the release date.
- c. Where additional securities are required to be added to an existing pledge, the same process for application of a pledge must be followed by all respective parties.
- d. Where there is a reason to release part of securities in an existing pledge, the Pledgee shall inform MSD indicating the securities and the number of securities to be released.
- e. Pledge release shall be communicated to MSD by submitting the completed and duly signed Pledge release form (Annex 3)

**8. Pledge Call:**

- a. In case of a default by the Pledgor in repaying the loan to the Pledgee, the Pledgee may request MSD to transfer the pledged Securities to the Pledgee MSD Account or to the





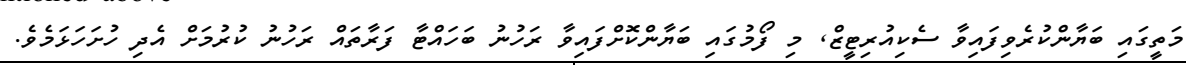
account of the appointed depository participant as per the terms of the lending agreement signed by Pledgee and Pledgor. MSD will not further verify the terms and conditions of the lending agreement to release the pledge. Pledgee shall be responsible and liable to indemnify the Pledgor for any loss or damage arising from a wrongful pledge call in breach of the pledge undertakings.

- b. In cases where a depository participant is appointed, the pledge may be held in custody of the depository participant as per the terms and conditions of the lending agreement signed by pledgee and pledgor.
- c. Prior to initiating the pledge call, MSD will issue a letter to the Pledgor notifying that the securities are being released to the Pledgee.
- d. MSD shall then transfer the securities to the Depository Account of the Pledgee / Depository participant of the pledgee where appointed.
- e. Partial release of securities during foreclosure is allowed depending on the amount of default. Partial release of securities would apply if the default value is less than the collateral cover specified by lender.
- f. Pledge call shall be communicated to MSD by submitting the completed duly signed Pledge call form (Annex 3)



A handwritten signature in blue ink, appearing to be 'H. S. J.', written over the circular stamp.

[illegible]

Sign:	_____
Date:	_____
I hereby request to pledge the above mentioned securities in this form in favor of the Pledgee mentioned above.	
<p>  </p>	
Sign:	_____
Name:	_____
NIC Number:	_____
For Official Use of MSD only	
Received by:	_____
Authorised by:	_____

This document will be issued by MSD as a confirmation to the Pledgee of the securities with MSD. This notice will be submitted by the Pledgor to the respective Pledgee. The Pledgee shall then after signing, submit the notice to MSD if they wish to accept the pledge.

[illegible]

<b>Details of Pledgor:</b>		<b>ދަރިވަރުގެ ފަދަތާ ގުޅިގެން</b>	
Pledge No:		ދަރިވަރުގެ ފަދަތާ ނުމަތީ:	
NIC/Reg No:		އި.އ. ޖެ ނަންބަރު / ދަރިވަރުގެ ފަދަތާ ނުމަތީ:	
Name:		ނަންމު:	
MSD Account No:		އެމް.އެސް.ޖެ ދަރިވަރުގެ ފަދަތާ ނުމަތީ:	
<b>Details of Pledgee</b>		<b>ދަރިވަރުގެ ފަދަތާ ގުޅިގެން</b>	
Reg No		ދަރިވަރުގެ ފަދަތާ ނުމަތީ:	
Name		ނަންމު:	
MSD Account No		އެމް.އެސް.ޖެ ދަރިވަރުގެ ފަދަތާ ނުމަތީ:	
MSD Pledge Account No		އެމް.އެސް.ޖެ ދަރިވަރުގެ ފަދަތާ ނުމަތީ:	
<b>Details of Pledged Securities:</b>			
Security Code:		Face Value:	
No. of Securities:			
<b>MSD Use only</b>		<b>އެމް.އެސް.ޖެ ފަދަތާ ނުމަތީ:</b>	
Prepared by		ފޮތްކުރާ ދަރިވަރުގެ ފަދަތާ ނުމަތީ:	
Stamp		އެމް.އެސް.ޖެ ފަދަތާ ނުމަތީ:	
Name:		ނަންމު:	
Signature:		ސަބްތާ:	
Date:		ދުވަހުގެ ތާރީޚު:	
<b>Confirmation by Pledgee:</b>			
In accordance with the rules relating to the Pledging of Securities issued by Maldives Securities Depository Company Pvt Ltd (MSD) we accept the securities in this pledge notice to service the loan agreement (agreement number as specified below) signed with the Pledgor. I / We undertake the obligation to notify MSD as specified in the rules upon maturity of the loan period in accordance with the agreement without further delay to release the pledge. MSD shall not be held liable for any loss or			

[illegible]

Agreement No:	
Signed By:	
Name:	
Designation:	
Name of the Pledgee:	
Date:	

Pledgee shall complete this form and submit to MSD in accordance with the rules for release or call of a pledge.

[illegible]