



CHENGETEDZAI

DEPOSITORY COMPANY LIMITED

Securities Pledging

Question: What is pledging of securities?

Answer:

- Pledging refers to an activity in which the borrower (pledgor) of funds uses securities as a form of collateral security to secure the funds it borrows or takes from the lender (Pledgee).
- Pledged securities are locked as no longer available for delivery for any other transactions by moving the securities from the Pledgor's/debtor's Available Balance into a Pledged Balance.
- Securities can only be pledged once. A new pledge can not be registered on the same securities.

Question: Who can pledge securities for such loans?

Answer:

- All individuals and institutions holding securities in the CSD system.

Question: What is the rationale for pledging?

Answer:

- This service allows a pledgor/debtor to use securities as collateral or guarantee to borrow funds from a pledgee/creditor (Bank or other Lending Financial Institution). The purpose of using securities as collateral security is to motivate the Banks to lend guaranteed or backed by securities as a way to deepen transactions or activities in the securities market

Question: How can I pledge my securities on the CSD?

Answer

- The client or pledgor goes to a Recognised Bank or Lending Institution to negotiate a facility.
- After the negotiation, the Investor or pledgor will hand over a duly completed and signed securities pledge form to his CSD Participant (registered Custodian/ Stockbroker).



Continued: How can I pledge my securities on the CSD?

- The CSD Participant will verify the instructions and signatures of the investor and will acknowledge receipt of the pledge request by returning to the investor, a duplicate copy of the Pledge Form duly signed.
- The CSD Participant in collaboration with the CSD will freeze the share(s) in the investor's securities account and confirm to the Bank/ Recognised Lending Institution.

NOTE: For share certificates that have not yet been deposited in the Central Depository system, investors must first deposit them into the depository system through their Brokers/ Custodians before they can be used to secure a debt facility from any financial institution.

Question: Can the Pledgee/Creditor use the securities for other transactions during the term of the pledge?

Answer:

- No. The securities will not be part of the pledgee's Available Balance and therefore cannot be tendered for other transactions

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Question: When I pledge my securities, will I receive dividends/ interest payments on the pledged securities?

Answer:

- Yes, the dividend/interest payment will be paid to the debtor/ pledgor during the term of the pledge and not the creditor. During the life of the pledge, ownership of the pledged securities remains with the pledgor as well as the right/ entitlement to any corporate action executed during that period.

Question: When is the pledge on the securities released?

Answer:

- The CSD shall release the pledged securities only when the creditor/pledgee requests the CSD to release the pledge imposed on the securities. The pledgee/creditor will submit , through their CSD Participant, a Securities Pledge Release Form instructing the CSD to release the securities from the pledge.



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Question: What happens to the pledged securities if the pledgor defaults?

Answer:

- In the case of a loan default by the pledgor, the pledgee can effect foreclosure on the pledge by submitting a Securities Pledge Foreclosure Form through their CSD Participant.
- It is expected that before the creditor informs the CSD of a possible foreclosure to be exercised on the pledged securities, the pledgee Bank Or the Lending Financial Institutions would have complied with all legal requirements and also given sufficient notices to the pledgor as required by the applicable law/agreement. The CSD will also notify the defaulting party concerning the foreclosure in question.

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