



**भारतीय प्रतिभूति और विनिमय बोर्ड**  
**Securities and Exchange Board of India**

**CIRCULAR**

CIR/MRD/DP/54/2017

June 13, 2017

To,  
All Stock Exchanges

Dear Sir/Madam,

**Sub: Comprehensive Review of Margin Trading Facility**

1. SEBI vide circular SEBI/MRD/SE/SU/Cir-15/04 dated March 19, 2004 had prescribed framework for permitting stock brokers to provide margin trading facility to their clients. The said framework was revised vide circular SEBI/MRD/SE/SU/Cir-16/04 dated March 31, 2004 and circular MRD/DoP/SE/Cir-08/2005 dated March 04, 2005.
2. Representations have been received from market participants requesting review of margin trading framework to enable greater participation. The suggestions received from market participants were examined and deliberated in the Secondary Market Advisory Committee ("SMAC"). Based on the deliberations, the revised framework for Margin Trading Facility are stated as under:

Securities Eligible for Margin Trading

3. Equity Shares that are classified as 'Group I security' as per SEBI Master circular No. SEBI/HO/MRD/DP/CIR/P/2016/135 dated December 16, 2016, shall be eligible for margin trading facility.

Margin Requirement

4. In order to avail margin trading facility, initial margin required shall be as under;

Category of Stock	Applicable margin
Group I stocks available for trading in the F & O Segment	VaR + 3 times of applicable ELM*
Group I stocks other than F&O stocks	VaR + 5 times of applicable ELM*

\*For aforesaid purpose the applicable VaR and ELM shall be as in the cash segment for a particular stock.

5. The initial margin payable by the client to the Stock Broker shall be in the form of cash, cash equivalent or Group I equity shares, with appropriate hair cut as specified in SEBI Master circular no. SEBI/HO/MRD/DP/CIR/P/2016/135 dated December 16, 2016.
6. The Stock brokers shall be required to comply with the following conditions:
  - i. The stocks deposited as collateral with the stock broker for availing margin trading facility (Collaterals) and the stocks purchased under the margin trading facility (Funded stocks) shall be identifiable separately and no comingling shall be permitted for the purpose of computing funding amount;
  - ii. Collateral and Funded stocks shall be marked to market on a daily basis;
  - iii. In case of increase in the value of Collaterals, stock brokers may have the option of granting further exposure to their clients subject to applicable haircuts;
  - iv. However, no such exposure shall be permitted on the increased value of Funded stocks.
7. Stock brokers shall ensure maintenance of the aforesaid margin at all times during the period that the margin trading facility is being availed by the client. In case of short fall, stock broker shall make necessary margin calls.
8. The exchange/stock broker, based on the risk assessment, shall have the discretion to impose/collect higher margin than the margin specified in para-4 above.

#### Liquidation of Securities by the Stock Broker in Case of Default by the Client

9. The stock broker shall list out situations/conditions in which the securities may be liquidated and such situations/conditions shall be included in the "Rights and Obligations Document". The broker shall liquidate the securities, if the client fails to meet the margin call to comply with the conditions as mentioned in this circular or specified in the "Rights and Obligations Document" specified by exchange.
10. However, the broker shall not liquidate or use in any manner the securities of the client in any situation other than the conditions stipulated at para-9 above.

#### Eligibility Requirements for Stock Brokers to Provide Margin Trading Facility to Clients

11. Only corporate stock brokers with a net worth of at least Rs.3.00 crore shall be eligible to offer margin trading facility to their clients.

12. The “net worth” for the purpose of margin trading facility shall be as specified in SEBI (Stock Brokers and Sub-Brokers) Regulations, 1992.
13. The stock brokers shall submit to the stock exchange a half-yearly certificate, as on 31st March and 30th September of each year, from an auditor confirming the net worth. Such a certificate shall be submitted not later than 30th April and 31st October of every year.

#### Source of Funds

14. For the purpose of providing the margin trading facility, a stock broker may use own funds or borrow funds from scheduled commercial banks and/or NBFCs regulated by RBI. A stock broker shall not be permitted to borrow funds from any other source.
15. The stock broker shall not use the funds of any client for providing the margin trading facility to another client, even if the same is authorized by the first client.

#### Leverage and Exposure Limits

16. At any point of time, the total indebtedness of a stock broker for the purpose of margin trading shall not exceed 5 times of its net worth, calculated as per para 12 above.
17. The maximum allowable exposure of the broker towards the margin trading facility shall be within the self imposed prudential limits and shall not, in any case, exceed the borrowed funds and 50% of his “net worth”.
18. While providing the margin trading facility, the broker shall ensure that:
  - a) exposure to any single client at any point of time shall not exceed 10% of the broker’s maximum allowable exposure, as specified in para 17 above.
  - b) exposure towards stocks purchased under margin trading facility and collateral kept in the form of stocks are well diversified. Stock brokers shall have appropriate Board approved policy in this regard.

#### Disclosure Requirement

19. The stock broker shall disclose to the stock exchanges details on gross exposure towards margin trading facility including name of the client, Category of holding (Promoter/promoter group or Non-promoter), clients' Permanent Account Number ("PAN"), name of the scrips (Collateral stocks and Funded stocks) and if the stock broker has borrowed funds for the purpose of providing margin trading facility, name of the lender and amount borrowed, on or before 12 noon on the following trading day. The format for this disclosure by the stock broker to the stock exchange is enclosed at Annexure 1.

20. The stock exchanges shall disclose on their websites the scrip wise gross outstanding in margin accounts with all brokers to the market. Such disclosure regarding margin trading done on any day shall be made available after the trading hours, on the following day, through its website. The format for such disclosure by the stock exchange is enclosed at Annexure 2.
21. The stock exchanges shall put in place a suitable mechanism to capture and maintain all relevant details including member-wise, client-wise, scrip-wise information regarding outstanding positions in margin trading facility and also source of funds of the stock brokers, on the exchange both on daily as well as on cumulative basis.

#### Rights and Obligations for Margin Trading

22. The stock exchanges shall frame a Rights and Obligations document laying down the rights and obligations of stock brokers and clients for the purpose of margin trading facility. The Rights and Obligations document shall be mandatory and binding on the Broker/Trading Member and the clients for executing trade in the Margin Trading framework.
23. The broker/exchange may modify the Rights and Obligations document only for stipulating any additional or more stringent conditions, provided that no such modification shall have the effect of diluting any of the conditions laid down in the circular or in the Rights and Obligations document.

#### Maintenance of Records

24. The stock broker shall maintain separate client-wise ledgers for funds and securities of clients availing margin trading facility.
25. The stock broker shall maintain a separate record of details of the funds used and sources of funds for the purpose of margin trading.
26. The books of accounts, maintained by the broker, with respect to the margin trading facility offered by it, shall be audited on a half yearly basis. The stock broker shall submit an auditor's certificate to the exchange within one month from the date of the half year ending 31st March and 30th September of a year certifying, inter alia, the extent of compliance with the conditions of margin trading facility. This certificate is in addition to the certificate on net worth specified in para 12 above.

#### Other Conditions

27. A broker shall take adequate care and exercise due diligence before providing margin trading facility to any client.

28. Any disputes arising between the client and the stock broker in connection with the margin trading facility shall have the same treatment as normal trades and should be covered under the investor grievance redressal mechanism, arbitration mechanism of the stock exchange.
29. SGF and IPF shall be available for transactions done on the exchange, whether through normal or margin trading facility. However, any losses suffered in connection with the margin trading facility availed by the client from the stock broker shall not be covered under IPF.
30. The stock brokers wishing to extend margin trading facility to their clients shall be required to obtain prior permission from the exchange where the margin trading facility is proposed to be offered. The exchange shall have right to withdraw this permission at a later date, after giving reasons for the same.
31. This circular shall supersede earlier circulars no SEBI/MRD/SE/SU/Cir-15/04 dated March 19, 2004, SEBI/MRD/SE/SU/Cir-16/04 dated March 31, 2004 and MRD/DoP/SE/Cir-08/2005 dated March 04, 2005 on Margin Trading Facility.
32. The Stock Exchanges are advised to:-
  - a. take necessary steps and put in place necessary systems for implementation of this circular.
  - b. make necessary amendments to the relevant bye-laws, rules and regulations for the implementation of the above decision.
  - c. bring the provisions of this circular to the notice of the member brokers of the stock exchange and also disseminate the circular on the website.
33. This circular is being issued in exercise of the powers conferred by Section 11 (1) of Securities and Exchange Board of India Act, 1992 to protect the interest of investors in securities and to promote the development of, and to regulate the securities market.

Yours faithfully

**Susanta Kumar Das**  
**Deputy General Manager**  
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**Annexure 1****Format of the Daily Reporting by the members to the Exchange on the amount financed by them under the Margin Trading Facility****Name of the member****Clearing No.**

Name of Client	Category of Holding ( Promoter/Promoter Group or Non Promoter	PAN	Name of Stock (Collatera l or Funded Stock)	Stock Exchange	Qty Financed ( Number of shares)	Amount Financed ( In lakhs)

SI.	Particulars	(Rs. in lakhs)
1	Total outstanding on the beginning of the day	
2	Add: Fresh exposure taken during the day	
3	Less: Exposure liquidated during the day	
4	Net outstanding at the end of the day	

**Source of Funds**

1	Out of net worth	
2	Out of borrowed funds	
3	If borrowed, name of lenders and amount borrowed to be specified separately	

**Note:** Disclosure is required to be made on or before 12 noon on the following trading day.

**Annexure 2**

**Format for the dissemination of information by the stock exchange**

<b>Name of the Stock</b>	<b>Qty. financed by all the members (Number of shares)</b>	<b>Amount financed by all the members (Rs. in lakhs)</b>

<b>Sl. No.</b>	<b>Particulars</b>	<b>(Rs. in lakhs)</b>
1	Scrip-wise total outstanding on the beginning of the day	
2	Add: Fresh exposure taken during the day	
3	Less: Exposure liquidated during the day	
4	Net scrip-wise outstanding at the end of the day	

**Note :** Disclosure is required to be made immediately before end of the following trading day ( in respect of previous day's margin trading facility) .