Task Force for Capital Market Reform: Proposed Changes in Margin Rules

Existing law	Proposed	Comments
1. Short title.-These rules, may be called Margin Rules, 1999.	These rules, may be called Equity Margin Rules, 2025.	When CCBL comes into operations, we will have new products such as options which will require different margin rules.
2-C: "member" means a member of the exchange who is registered as the stock-dealer/stock-broker by the Securities and Exchange Commission under the Securities and Exchange Commission (Stock-dealer, Stock-broker and Authorized Representative) Regulations, 1994.	"Institution" means a Stock-Broker/Stock-Dealer, TREC of the exchange who is registered as the stock-dealer/stock-broker by the Securities and Exchange Commission under the Securities and Exchange Commission (Stock-dealer, Stock-broker and Authorized Representative) Regulations, 1994 and Merchant Banks.	Stock Brokers and Merchant Banks should follow an uniform law.
3-1: A member may extend credit facilities to its approved client for securities transactions subject to the margin account requirements of these rules.	3-1: Margin Account Requirements and Client Eligibility for Credit Facilities 3.1.1Credit Facility Extension: An Institution may extend credit facilities to its approved clients for securities transactions, subject to the margin account requirements of these rules. 3.1.2 Client Equity Requirement: Only clients with equity of BDT 10 lac or higher are eligible to be offered margin loans by institutions. 3.1.3 Risk Profiling: Institutions must conduct mandatory risk assessments for clients before granting margin trading facilities to ensure their suitability for margin trading.	Licensed lenders are required to conduct risk profiling for their clients. Market experience may factor into this profiling but is not mandatory. However, the retired individuals should not use margin loan. Also, clients should not put all their money in equity investment.

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	Clients who do not have a regular earning should not be given a margin loan, e.g., a retired person, a student, a housewife. However, a client being a HNI may be allowed to avail margin loan, even without a regular income flow. HNI is defined in SME Board related law. Any Client with less than 6 months of secondary market investing history in Equities with over BDT 10 Lac shall not be eligible for Margin Financing.	
3-2: Margin account arrangements must be evidenced in the form of a written agreement executed between the member and the client.	This should be uniform across all institutes. Some institutes use non-judicial stamp papers, while some use white papers. Online agreements should also be facilitated. There should be an expiry date of margin loan contract. It can be tied to 6 months to 1 year, with renewal options, provided equity level meet margin agreements. Loan recall provision: With one month notice period. Should be mentioned in the agreement.	
3-3: A client who operates a margin account with a member shall authorize the member to mortgage, pledge or hypothecate the client's securities or property for a sum not exceeding the debit balance in the margin account and without obligation to retain in his possession or control securities of like character.	Margin or Eligible Collateral: Inclusion list: i. Cash ii. Non-cash (eligible listed securities): a) Listed common stock of Main Board under category A. b) Listed corporate bond and debentures with minimum BBB+ rating in the Main Board. c) Government security, which are salable. The margin lending institute may create their own conservative list by selecting from the above. Haircut: The institutes may apply standard haircut as stipulated in RBCA, however an institute may apply a conservative rate based on internal risk based approach considering fair value, liquidity, volatility etc.	Industry should limit liability to Capital Market related Securities. Institutions offering Margin cannot hold clients liable beyond the securities and cash held in the Margin Account.

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	Exclusion list: a) Securities that cannot be sold freely due to legal restrictions or lock-up periods. Securities held by company sponsors or placement holders that are non-transferable or locked in for regulatory reasons. The locked-in shares, or blocked shares of sponsors, or securities pledged for other purposes shall not be considered as marginable securities. b) Securities that are highly speculative and illiquid as well as securities which are suspended from trading. c) Shares of companies facing insolvency, bankruptcy, or severe financial instability, or entities which are marked as 'not a going concern' by the auditors. d) Companies with limited life cycle, e.g. power plants shall be made ineligible 2 years before the expiry.	
3-4: The initial margin must be deposited with the member not later than seven days from the first date of securities transaction and shall be such amount that would result in the equity being not less than 150% of the debit balance in the margin account.	The initial margin must be deposited with the Institution before the securities transaction and shall be such amount that would result in the equity being not less than 150% of the debit balance in the margin account.	Initial margin should be deposited before the transaction.
3-5: Such additional margin must be satisfied by deposit of cash or marginable securities within three days from date of notice. The member shall not permit any new transactions in the margin account unless the resulting equity in the account would be not less than 150% of the debit balance.	Such additional margin must be satisfied by deposit of cash or marginable securities within three working days from date of notice via email and SMS. However, if the client fails to provide additional cash or margin, the margin lender will have the right, but not an obligation – to do partial adjustment of the loan, so that the ratio reaches above 150%.	Electronic means should be treated as valid.
3-6: A member shall not permit the equity in a client's margin account to fall in any way below 125% of the debit	~~A member shall not permit the equity in a client's margin account to fall in any way below 125% of the debit balance.~~ Once the equity falls below 125% of the Debit Balance, the Institution shall have absolute discretion and without notice to	"A member shall not permit the equity in a client's margin

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balance. Once the equity falls below this level, the member shall have absolute discretion and without notice to the client to liquidate the margin account including the marginable securities deposited to bring the equity to not less than 150% of the debit balance.	the client to liquidate the margin account including the marginable securities deposited and must bring the equity to not less than 150% of the debit balance. However, a Margin Lender may set a higher ceiling for trigger sell, subject to having such a clause in the contract. If a lender does not take any action to initiate liquidation sell immediately, the Lender will be held libale to pay the lost equity to the client, so that it reaches 25% equity-to-debt ratio.	account to fall in any way below 125% of the debit balance." Due to extreme Market movements, this isn't always practical.
3-7: For the purpose of computing margin requirements in a margin account, the last traded price of the security on the preceding market day shall be used.	For the purpose of computing margin requirements in a margin account, the closing price of the security on the last trading day shall be used.	There can be no trading in the preceding market day.
3-8: The member shall require substantial additional margin as the exchange with the prior approval of the Commission may from time to time prescribe in an account where the securities carried are subject to unusually rapid or violent changes in value, or do not have an active market or have been suspended from trading on the exchange for more than seven days or where the quantity carried is such that it cannot be liquidated promptly.	The member shall require substantial additional margin as the Exchanges may from time to time prescribe in an account where the securities carried are subject to unusually rapid or violent changes in value, or do not have an active market or have been suspended from trading on the exchange for more than seven days or where the quantity carried is such that it cannot be liquidated promptly.	
3-9: A client may withdraw cash or securities from his account provided that the equity in his account does not fall below 150% of the debit balance.	A client may withdraw cash or securities from his account within the **approved loan limit**, provided that the account does not fall into negative purchase power.	
3-10 The exchange shall have with the prior approval of the Commission the discretion to vary the margin requirements stipulated in sub-rules (4), (5) and (6) above.	Manintenance margin and forced selling conditions cannot be ammeded by Exchangees.	

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5-1: No member shall permit deficit arising from transactions by a single client to exceed 25% of its average net capital. [1987 repealed]	**Exposure Limits:** • Single client exposure: A percentage of Total Capital. Maximum of 10% of Capital of the lender, and 15% for the group and associate companies as a whole). Similarly, 15% can be the maximum exposure for a single family. • Single sector exposure limit: Maximum 30% Proviso: Certain time limit for those, who are now overexposed.	
6. Exposure to a single security.	Single Stock Exposure Limit (All clients combined): 25% of total exposure of the lender.	
Marginable Securities 40 P/E, 50 P/E in case the company remains in "A" category for consecutive 3 years and paid-up capital is above BDT 30cr. [circular dated May 3, 2023] Z-category is excluded.	**Marginable Securities** **Daily Publication:** Stock exchanges will publish a daily list of marginable securities on their websites. Exchanges may be given the authority to set-up the criteria. **Criteria for Selection:** The list will be based on the following factors: a) **Price-to-Earnings (P/E) Ratio:** Securities with a P/E ratio not exceeding 30. It would 20 for banking and non-bank financial stocks. One-off earnings are to be eliminated while calculating P/E. Also, last four quarters' earnings are to be added to calculate the full-year EPS – to calculate **Trailing 12 month P/E**. b) **Stock Category:** Listed common stock of Main Board under category A, except under Additional Surveillance Measures (ASM). **c) Volatility:** Exclude securities with extreme price volatility. Exchanges shall define the the volatility metrics and publicly disclose the list of securities to be excluded under this criterion. d) **Liquidity:** Only securities with adequate trading volumes and smooth market activity will qualify. Exchanges shall define the liquidity metrics and publicly disclose the list of such securities. e) **Free-float market capitalization**: Any stock having BDT 75cr or above free-float market capitalization shall be eligible for Margin Loan. Backgroud work(e.g.):	

<table>
<tr><th>Existing law</th><th>Proposed</th><th>Comments</th></tr>
<tr><td></td><td>
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<tr><td>>=50cr</td><td>6 scrips will be non-marginable, 174 marginable</td></tr>
<tr><td>>=75cr</td><td>21 scrips will be non-marginable, 159 marginable (No B, Z category, No MF)</td></tr>
<tr><td>>=100cr</td><td>49 scrips will be non-marginable, 131 marginable</td></tr>
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f) Companies with limited life cycle, e.g. power plants shall be made ineligible 2 years before the expiry.
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<tr><td>Maximum 1:1</td><td>Margin Loan Ratio:
The maximum margin financing ratio shall not exceed 1:1. The Lender shall have the discretion to be more conservative.</td><td></td></tr>
<tr><td>Nil</td><td>Interest Collection from Margin Accounts:

Interest will be calculated on the daily outstanding balance and charged on quarterly rest.

Realization of Interest through Sale of Securities

If a client fails to pay the interest, the institution is authorized to sell the client's securities to realize the interest. However, this is not required for accounts with positive purchase power, i.e., within the initial loan limit.</td><td></td></tr>
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Nil	**Negative Equity Management:** a) No Interest on Negative Equity Accounts: Institutions are prohibited from charging interest on any margin account that has negative equity. (The negative interest amount however may be calculated and booked separately in a Memorandum account for future adjustment). b) No purchase of securities to be allowed. c) Clients falling under negative equity would automatically be subject to liquidation and write-off. For the existing negative equity clients, the margin lenders can exercise the letter of lien, write-off losses and transfer the balance shares after adjustment of the negative balance to the Dealer or company account; part by part. If clients and lender may come into an agreement so that the client is relieved of the dues to the lender; the securities can be transferred to the margin finance provider's account.	
Interest rates fixation by BSEC	• Need to repeal the Directive. Should be market based. • The interest rate will be printed in the Portfolio Statement. • The lender will notify the client with a 15 days notice, for any revision of interest rate. • Interest rate will be floating which should be mentioned in the agreement.	
Time bar to make a newly listed security marginable: 30 trading days form commencement of trading.	1. 90 calendar days from commencement of trading. 2. For category change, 15 calendar days are required to be marginable.	
Classification and Provisioning: 1% for brokers, 1% for merchant banks (optional)	Unclassified: Above 50: 1% General Provision Classified: Margin Call: >25 to 50: 2% Forced Sell: 0 to 25: 5% Negative Equity: 100%	
Implementation of Risk Based Capital Adequacy (RBCA) Rules, 2019	Currently, the capital requirement of a stock broker is ensured via various rules and a letter of BSEC written to CDBL, which is not gazetted or published as a Dierctive/Order/Notification.	

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	a) The BSEC letter to CDBL is not in sync with ঃযব ডিপজিটরি (ব্যবহারিক) প্রবিধানমালা, ২০০৩ b) The explanation of BSEC to ascertain minimum capital needs a review. For instance, a company is having BDT 40cr net worth, against paid-up capital of BDT 100cr. BSEC is asking to maintain 50% net worth, whereas the minimum capital requirement is BDT 25 lacs only. [সিকিউরিটিজ ও এক্সচেঞ্জ কমিশন (স্টক-ডিলার, স্টক-ব্রোকার ও অনুমোদিত প্রতিনিধি) বিধিমালা, ২০০০] BSEC can repeal the above circulars/laws for the stock brokers and implement the RBCA, 2019, which is a modern law.	
Confiscation/right to liquidate the pledged shares or the shares under lien: CDBL, along with DSE has developed a complex and impractical rule for confiscation of pledged shares	Confiscation/ right to liquidate the pledged shares or shares under lien should be the automatic right of the lenders. CDBL, along with DSE has developed a cumbersome rule for confiscation of pledged shares, which should be eliminated. It requires signature from the defaulting sponsor and the company.	Earlier, many institutes provided margin loan against sponsor shares. Later those shares were blocked in CDBL system. Thus, those became non-saleable and lenders are unable to recover the interest or do forced sell.

New Ideas:

Title	Proposal
Segregation of Cash and Margin BO and settlement:	1. Clients can be allowed to open a cash account (BO) and margin account (BO) in the same DP. 2. Margin accounts must be created in CDBL under a Margin Flag. CDBL is to provide that facility. The Margin Flag cannot be removed by anyone. 3. There will be two types of CCBAs, one for cash and one for margin. For managing the margin finance, client deposits and financing are to be channeled through the new CCBA. The objective is to safeguard the “free cash” of cash type accounts.

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	4. Clients cannot purchase non-margin securities in Margin Account. 5. A Margin Account cannot be used for IPO application purposes. That cash account shall be used for IPO/IQIO application. 6. Dividends from all securities in a Margin Account must be sent by the issuing company to the institution. Institutions are responsible to credit the dividends into the Margin account balance. 7. The issuer company cannot allow to do renunciation to a third party for any rights offer. **8.** There can be transfer of cash from cash to margin accounts and vice versa. However, shares can have one-way traferability, i.e., from cash to margin account only.
Loan adjustment (Reduced netting facility): Adjustment	For below initial margin, but not below the maintenance margin, maximum 10% Netting Adjustment can be made, i.e., maximum 90 taka purchase for every 100 taka sell.
Becoming a Director by acquiring shares using margin loan.	This should be stopped. Rationale: Otherwise, lender cannot recover the principal and interest.
Loan against sponsor shares	Same share or related company shares should not be bought.
Purchase power against unrealized gain	Should not be allowed. However, unrealized loss should be considered while calculating marginable equity.
Cheque Dishonour cases are to be reported to BSEC and client cannot use this modality in future	If a client's cheque is dishonored due to some technical issues (other than non-availability of funds), it should not be reportable to Exchanges. This Directive may be amended.
Buy against cheque-in-transit	Broker will have to do pre-funding.
Market-Wide Stress Tests and Reporting	1) Exchanges are to conduct yearly stress tests to assess the resilience of the margin system under extreme conditions. 2) Institutions are to disclose their aggregate margin exposure to the Exchange on a monthly basis. Modus Operandi will be developed by the Exchanges. Exchanges may make a security non-marginable based on the overall exposure of the market.