

Consultation Paper on “Review of Margin Trading Facility (MTF) Framework”

Objective

1. This consultation paper seeks comments / suggestions from the public on the proposals relating to the review of the Margin Trading Facility (MTF) Framework, as set out in the proposals at paragraph 8 below.
2. The proposals, *inter-alia*, seek to enhance operational efficiency and ease of doing business for stock brokers, and to strengthen the calibration of risk and margining in the MTF Segment.

Background

3. The MTF framework was first introduced in 2004. A comprehensive review of the framework was carried out in 2017 to enable greater participation. In 2022, units of Equity ETFs categorized as Group I securities were permitted as eligible securities for MTF and as eligible collateral under MTF.
4. Subsequently, SEBI vide circular dated September 11, 2024, permitted the cash collaterals of the client to be used as pay-in for the MTF position and the securities equivalent to the amount of cash collateral shall be used as margin for the MTF position. Through this structure, the overall risk of the transaction increased due to the Wrong-way Risk i.e. the funded stock itself is used as margin for the transaction. Considering the same, the above structure was allowed with a higher margin i.e. Value at Risk (VaR) + 5 times Extreme Loss Margin (ELM) instead of VaR + 3 ELM.
5. The present provisions governing MTF, including the forms of eligible collateral, initial and maintenance margins, eligibility (net-worth) criteria, sources of funds, leverage and exposure limits, disclosure requirements, the Rights and Obligations Document, and maintenance of records, are set out in Clause 4 of Chapter 1 of the Master Circular for Stock Exchanges and Clearing Corporations dated December

30, 2024 (*hereinafter referred to as "Master Circular"*) and the same is also placed at **Annexure-1**.

Need for review

6. In light of the growing volumes of trades under the MTF, a review of the framework has been considered necessary to ensure continued robustness of risk management while facilitating ease of doing business.

Consultation

7. Based on the suggestions received from the Brokers' Industry Standards Forum (ISF) for a review of the MTF Framework and discussion with various stakeholders, the proposals were discussed in Secondary Market Advisory Committee (SMAC) of SEBI. Based on the recommendations of SMAC and subsequent internal deliberations the proposals are given at paragraph 8 below.

Proposals

8. The proposals for review of MTF Framework have been stipulated in the Table below.

Existing Provision	Proposed Change
8.1. Forms of collateral for the purposes of MTF	
Initial margin shall be in the form of <u>cash, cash equivalent, or equity shares</u> , with appropriate haircut for liquid assets as specified in the SEBI Master Circular for risk management in the cash market. <i>[Ref: Clause 4 of Chapter 1 of the Master Circular]</i>	(a) Collaterals eligible to be accepted by CCs in the normal cash market may be made uniform for both Cash and MTF transactions. (b) EPI sell credits may be permitted as collateral for fresh MTF positions, subject to the following:

Existing Provision	Proposed Change
	(i) for the unencumbered (unfunded) portion of the sale value; and (ii) post recovery of the outstanding lending amount for such stocks, if any, from its sale proceeds.
8.2. Rebalancing in case of change in grouping of a security (new proposed provision)	
	<u>New Provision</u> (a) Where a security being funded or given as collateral by a client under MTF moves out of the Group I category, or is shifted to the Trade-for-Trade category, or is suspended from normal market trading for any reason, a rebalancing period of 30 days may be provided to the Stock Broker, to ensure compliance with the regulatory requirement. (b) Stock exchanges may provide additional measures to deal with such scenarios.
8.3. Rights and Obligations (R&O) Document	
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. The Stock Broker shall list out the situations / conditions in which the securities may be liquidated, and such situations / conditions	(a) In addition to the existing requirements, a uniform “Rights and Obligations Document” may be prepared jointly by all Stock Exchanges. This will ensure uniformity across exchanges and to provide clarity to Stock Brokers and clients. (b) The document may be provided by the stock exchanges within 30 days from the date of issuance of the proposed guidelines.

Existing Provision	Proposed Change
shall be included in the "Rights and Obligations Document" (R&O). The Stock Broker shall liquidate the securities if the client fails to meet the margin call or to comply with the conditions as prescribed under SEBI/ Stock Exchange Circular(s) or as specified in the "Rights and Obligations Document" specified by exchange. <i>[Ref: Clause 4.9, 4.4.1, 4.4.2 of Chapter 1 of the Master Circular]</i>	
8.4. Sources of funds for MTF	
Stock brokers may use own funds or borrow funds from scheduled commercial banks and/or NBFCs regulated by RBI, borrow funds by way of issuance of Commercial Papers (CPs), and by way of unsecured long-term loans from their promoters and directors. The borrowing by way of issuance of CPs shall be subject to compliance with appropriate RBI Guidelines. The borrowing by way of unsecured long term loans from the promoters and directors shall be subject to the appropriate provisions of Companies Act, 2013. <i>[Ref: Clause 4.6 of Chapter 1 of the Master Circular]</i>	(a) The sources of funds for offering MTF may be expanded to include borrowing through issuance of Non-Convertible Debentures (NCDs) or any other debt instruments by the broker, in addition to the existing permitted sources.
8.5. Maximum allowable exposure of the broker	
The maximum allowable exposure of the broker towards the margin trading facility shall be within the self-imposed prudential limits	(a) The maximum allowable exposure of the stock broker towards MTF shall be within the self-imposed prudential limits and shall not

Existing Provision	Proposed Change
and shall not, in any case, exceed the borrowed funds and 50% of his “net worth”. <i>[Ref: Clause 4.7.2 of Chapter 1 of the Master Circular]</i>	exceed the borrowed funds and the available net worth, subject to the following: (i) An amount equal to lower of (1) twice the minimum net worth required for the broker’s broking operations and other activities; and (2) 50% of net worth, shall always be ring-fenced. (ii) The remaining net worth may be used for MTF, within the overall exposure limit of 5.5 times of its net worth.
8.6. Passive breach of client-level exposure limit	
Exposure to any single client at any point of time shall not exceed 10% of the broker’s maximum allowable exposure. <i>[Ref: Clause 4.7.3.1 of Chapter 1 of the Master Circular]</i>	(a) Where a client, who initially was within the permissible single-client limit, subsequently breaches the said limit due to reduction in stock broker’s overall MTF exposure, such breaches may be considered as passive breaches and may not be treated as violation, subject to the following: (i) The stock broker shall ensure that, within 30 days from the date of such passive breach, the client reduces its position to comply with the regulatory limit of not exceeding 10% of the broker’s maximum allowable exposure; and (ii) Till such time, the client shall not be offered any additional exposure through MTF.
8.7. Eligibility criteria for brokers for offering MTF	
Only corporate brokers with a “net worth” of at least Rs. 3.00 crore shall be eligible to offer margin trading facility to their clients.	(a) The minimum net-worth threshold for eligibility of the Stock Broker to offer MTF may be increased to Rs. 5 Crore.

Existing Provision	Proposed Change
[Ref: Clause 4.5.1 of Chapter 1 of the Master Circular]	(b) In addition to the corporate brokers, brokers in the form of LLP (Limited Liability Partnership) may also be allowed to offer MTF to their clients.
8.8. Disclosure requirements	
Stock brokers disclose to 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 including units of Equity ETFs 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 6 pm on T+1 day. [Ref: Clause 4.8.1 of Chapter 1 of the Master Circular]	(a) Stock Brokers may report the MTF details to Stock Exchanges on T+1 day basis, before the pay-in timelines of the Clearing Corporations. Subsequently, the Stock Exchanges may consolidate the MTF book of all the Stock Brokers and provide the updates to the Clearing Corporations.
8.9. Transfer of entries between MTF and non-MTF books and running account settlement of excess cash collateral	
The stock broker shall maintain separate client-wise ledgers for funds and securities of clients availing margin trading facility. [Ref: Clause 4.10.1 of Chapter 1 of the Master Circular]	(a) The stock broker shall maintain separate client-wise ledgers for funds and securities of clients availing margin trading facility. (b) Fungibility of unencumbered funds or securities between the normal ledger and the MTF ledger of a client may be permitted. (c) Any credit or debit arising from the buy or sell of a stock through MTF may be transferred to the MTF ledger by making a

Existing Provision	Proposed Change
	corresponding credit or debit entry in the normal ledger. Excess margin or collateral may be moved between the ledgers through corresponding debit and credit entries. (d) In addition to the same, the excess cash collaterals lying in margin trading account of the client, if any, may also be subject to the periodic running account settlement.
8.10. Funded stock as maintenance margin (auto margin pledge to the extent of cash used for pay-in)	
If the broker has collected cash collateral from the client in form of margin for availing margin trading facility and the Trading Member has given the said cash collateral to the Clearing Corporation (CC) towards settlement obligation (pay-in) of the said client, then same can be considered as maintenance margin to the extent of securities received from CC against such cash collateral given to CC and such shares are pledged in favour of Trading Member in form of funded stock <i>[Ref: Clause 4.3.3.1 of Chapter 1 of the Master Circular]</i>	(a) The functionality of auto-pledge in favour of the stock broker, for funded stocks transferred to client's demat account for the purpose of MTF, without seeking specific consent from the client, already exists (b) The unfunded portion of the stock brought through MTF, i.e., to the extent of cash collateral used for pay-in, may be considered for maintenance margin through the existing mechanism of auto-pledge. (c) Further, in case the cash collateral is used as pay-in by the stock broker, the net funded position may be only to the extent of stocks bought through stock brokers funds.

Existing Provision	Proposed Change
8.11 Higher maintenance margin for cash being used as pay-in	
In case the funded stock is considered towards maintenance margin to the extent of cash collateral provided by the client, the Trading Member shall ensure that the funded stock considered is under Group 1 securities. The applicable margin shall be VaR + 5 times of Extreme Loss Margin, irrespective of whether the funded stock is available in F&O segment or not. <i>[Ref: Clause 4.3.3.5 of Chapter 1 of the Master Circular]</i>	In this regard, suggestions were received stating that in case the cash collateral is used as pay-in, the existing margin requirement may be reduced from VaR + 5 ELM to VaR + 3 ELM. However, it was observed that the additional margin requirement has been kept to address the wrong-way risk that may arise in cases where the security used as maintenance margin (collateral) is the very same security funded under MTF. As the margin (collateral) and the funded exposure are the same, a decline in the price of that security may erode the value of both the margin (collateral) and the funded stock simultaneously. Thus, the margin requirement for such position would need to be higher than any normal MTF trades. In view of the above, it is proposed that the existing requirement of higher maintenance margin (VaR + 5 ELM) for MTF positions where the cash margin is used as pay-in and the received security is used as collateral for this position, may be continued. An Illustration in this regard is given at Annexure-2.

9. Currently Margin Trading Facility is only available for Equity Shares and units of Equity ETFs that are classified as 'Group I security'. SEBI is in the process of reviewing the group classification of securities for the purpose of margin, collateral, MTF and Securities Lending and Borrowing Mechanism (SLBM). Consultation paper in this regard will be issued separately.

Questions for Public Comments:

10. Comments/Suggestions from the public are invited on the following questions:

- 10.1. Do you agree with the proposal at paragraph 8.1 above?
- 10.2. Do you agree with the proposal at paragraph 8.2 above?
- 10.3. Do you agree with the proposal at paragraph 8.3 above?
- 10.4. Do you agree with the proposal at paragraph 8.4 above?
- 10.5. Do you agree with the proposal at paragraph 8.5 above?
- 10.6. Do you agree with the proposal at paragraph 8.6 above?
- 10.7. Do you agree with the proposal at paragraph 8.7 above?
- 10.8. Do you agree with the proposal at paragraph 8.8 above?
- 10.9. Do you agree with the proposal at paragraph 8.9 above?
- 10.10. Do you agree with the proposal at paragraph 8.10 above?
- 10.11. Do you agree with the proposal at paragraph 8.11 above?
- 10.12. Whether identification of trade as normal cash market or MTF be done at the time of order placement?
- 10.13. Any additional safeguards/changes which may be considered in the MTF Framework?

Public Comments on this Consultation Paper:

Public comments are invited on the proposal to review the Margin Trading Facility (MTF) Framework. The comments/ suggestions should be submitted latest by **July 09, 2026** through the following link:

<https://www.sebi.gov.in/sebiweb/publiccommentv2/PublicCommentAction.do?doPublicComments=yes>

In case of any technical issue in submitting your comment through web based public comments form, you may send your comments through e-mail to mrd_pod3@sebi.gov.in with the subject “**Review of Margin Trading Facility (MTF) Framework**” on the proposals at paragraph 8 above.

Issued on: June 18, 2026

Annexure-1

The existing provisions with regard to Margin Trading Facility may be referred at Paragraph 4 of Chapter 1 of Master Circular for Stock Exchanges and Clearing Corporations dated December 30, 2024. The same can be accessed at this [link](#).

Annexure-2

Illustration-1

Higher maintenance margin in case when funded stock is considered towards maintenance margin to the extent of cash collateral provided by the client:

1. With regard to higher maintenance margin in case of funded stocks, margins applicable for various scenarios is illustrated in below table:

S No	Particulars (For the MTF Book of a F&O securities)	Scenario 1 - Cash used for pay-in	Scenario 2 - Cash not used for pay-in (upstreamed)	Scenario 3 - Securities as collateral (margin pledge)
1.	Client Contribution	10,000	10,000	10,000 (after haircut@VaR)
2.	VaR (Say)	9.5%		
3.	ELM	3.5%		
4.	Initial Margin Requirement	VaR + 3 ELM = 20%		
5.	Initial Margin	10,000	10,000	10,000
6.	Gross Exposure (T day)	50,000	50,000	50,000
7.	Funds used for pay-in (T+1 day)	10,000	0	NA
8.	Net funding (T+1 day)	40,000	50,000	50,000
9.	Maintenance Margin in the form of Funded Securities/Cash/ Margin Pledge (T+1 day)	10,000	10,000	10,000
10.	Value after VaR as haircut	9,050	10,000	10,000
11.	Maintenance margin Requirement	VaR + 5 ELM	VaR + 3 ELM	
12.	Maintenance margin (% of net funding)	27%	20%	
13.	Maintenance margin (INR)	10,800	10,000	10,000
14.	Margin Shortfall = 10-13	-1750	0	0