SEBI's new margin rules explained in 7 points

Live Mint |Updated: 01 Sep 2020, 02:32 PM IST

Change in margin system and securities pledge-repledging could bring disruptions in volumes of daily trading as there is insufficient preparation.

The new margin rules have come into effect from Today after SEBI's refusal to extend the deadline to implement the new rules on margin pledge any further. SEBI's new margin rules aim at bringing transparency and preventing brokerages from misusing clients' securities. These norms came out earlier this year in February and were initially scheduled to come into effect from June 1. The date was then extended to August 1 and thereafter to September 1. While the brokers and other participants requested more time to make their systems ready, SEBI refused to extend by saying there was enough time to do the changes.

Here are the changes:

The stock will continue to remain in investor's demat account and can be directly pledged to the clearing corporation. As the securities remain in investors' own demat account, they will enjoy all corporate benefits on their shares.

Under the old system, cash margins were taken care of by the broker. Investors either had to transfer their shares to the brokers' account or give power of attorney (POA) to the broker. Some brokers went on to misuse the POA assigned to them.

It is mandatory for brokers to collect margins from investors upfront for any purchase of sale of shares. Failing to do so will attract a penalty.

No Power of Attorney (POA) to be assigned to brokers. The investors used to give authority to the brokers by way of POA to execute transaction on their behalf. The POA cannot be used for pledging anymore.

Investors who want to avail margin now have to create margin pledge separately.

"Earlier collecting upfront margin wasn't mandatory, but under the new system, investors will have to pay at least 30% margin upfront to avail a margin loan," says Angel Broking.

Shares bought today cannot be sold tomorrow. Currently, investor can use intraday realised profits for taking new positions on the same trading day. According to the new norms, you will be able to use it only after T+2 days in case of equity/stocks once you receive the delivery of shares in your account.

"Till now, clients needed to meet margin requirements in their account once at the end of the day. But, the new margin rules of SEBI will require them to fulfil their margin obligations at the beginning of the deal," says Angel Broking.

Here's what analysts have to say about the impact of implementation of new margin rules by SEBI:

Deepak Jasani, Head of Retail Research, HDFC Securities

The change in margin system and securities pledge-repledging could undoubtedly bring disruptions in volumes of daily trading as there is insufficient preparation and validation by the participants in this system - viz Exchanges, Depositories, Depository participants, Clearing corp, Brokers and clients.

We could witness further polarization of stocks in the markets for some time with the top 200-300 stocks seeing the most depth and liquidity. The securities currently pledged with the brokers need to undergo the new process, which so far is not smooth going by the runs conducted so far. Hence large traders are unsure as to whether they will have limits to trade on Sept 01 which may lead to volume drop in both Cash and F&O segments that may last a few days/weeks.

The short term trend of the markets seems to have turned down.

Siddhartha Khemka, Head - Retail Research, Motilal Oswal Financial Services

Going ahead, the market may remain under pressure due to introduction of new margin requirement in the cash segment from 1st September and geo-political tensions between India-China. Any sharp fall in the market would be a good buying opportunity for long term investors to add quality stocks in the portfolio."