

Margin Loan Criteria: A Comparative Analysis with Well-Regulated Financial Markets and Reform Opportunities in Bangladesh

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ABSTRACT

Background: The previous Margin Rule in Bangladesh had several shortcomings, including weak investor protection, unclear guidelines, insufficient restrictions, and poor risk management. This resulted in high negative equity, which harmed the financial market and impacted the overall economy as well. Although the newly published Margin Rule 2025 is an improved version, there is scope for further improvement that can contribute significantly to restore the economic condition of Bangladesh.

Purpose and Significance: The study analyzes the existing margin loan policy in Bangladesh and draws on margin lending practices from well-functioning financial markets (the United States, Australia, Canada, and Vietnam), along with current practices in Bangladeshi brokerage firms with zero negative equity and insights from industry experts. It proposes policy-level recommendations for the Bangladesh Securities and Exchange Commission (BSEC) and reform measures for margin financiers to address key risk areas. These recommendations aim to support a more stable and effective margin lending framework in Bangladesh.

Methodology: This qualitative research incorporates comparative secondary data analysis and thematic analysis of expert interviews to evaluate Bangladesh's margin loan rules and recommend reforms based on expert opinions and global best practices.

Findings: The report recommends stricter BSEC licensing, clearer and more effective margin rules, and including margin loans in CIB reports to improve accountability and transparency. It also suggests that margin lenders use credit ratings and stock risk profiles based on key factors to set fair, adjustable margin requirements to help keep the stock market healthy.

Research Limitations/Implications: Future researchers can conduct additional expert interviews and adjust the rules by considering differences in the stock markets, economic conditions, and other macroeconomic factors across countries to recommend more suitable margin rules.

Practical Implications: A suitable margin rule can reduce the chances of negative equity, encourage greater investment, make the stock market more liquid and healthier, and protect the rights of both investors and margin loan lenders.

Originality/Value: This report offers guidance for regulators and brokers to create healthier, more sustainable margin lending policies.

Keywords: Margin rules, Stock market regulation, Investor protection, Risk management, Negative equity prevention, Bangladesh stock market

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INTRODUCTION

A margin loan allows investors to borrow money from a brokerage firm or a merchant bank to purchase securities, using the securities as collateral. It is a trading tool that amplifies short-term gains by increasing investors' purchasing power and, through active trading, can enhance overall market liquidity. (U.S. Securities and Exchange Commission, 2021) Margin lending carries significant investment risk. Margin loans can increase potential gains when the funds are invested in well-performing stocks, but they also increase the risk, as potential losses are higher when the stocks perform poorly. Additionally, a high level of interest must be paid on the borrowed money. (Ahmmed et al., 2025; LegalClarity Team, 2025a)

The securities and exchange commissions of the respective countries are the regulatory bodies that impose restrictions and set criteria for margin loans. These regulations are important to keep risks under control and prevent excessive leverage. Developed countries often have stricter policies compared to underdeveloped or developing nations. Margin loans can expose investors and margin financiers to significant risk if not properly managed. (LegalClarity Team, 2025b)

Problem Statement

The Bangladesh Securities and Exchange Commission (Margin) Rule, 2025 has recently been published to replace the previous Margin Rule 1999. Although the new rule is a much-improved version, gaps remain in clarity, risk controls, and enforcement. These weaknesses may continue to allow excessive leverage and negative equity, posing risks to investors and the stability of Bangladesh's capital market.

Objectives of the Study

Broad Objective: To analyze the existing margin loan policy in Bangladesh and offer recommendations for improved margin loan criteria in line with best practices.

Specific Objectives:

- i. To analyze the existing regulatory framework for margin loans in Bangladesh.
- ii. To identify and analyze key margin loan criteria and regulatory practices in well-functioning and well-regulated financial markets.
- iii. To identify gaps in Bangladesh's margin loan system by comparing it with best practices.
- iv. To propose reforms for Bangladesh's margin loan criteria based on expert recommendations and findings through secondary research on other well-regulated financial markets.

Scope and Significance

This report compares margin loan criteria in Bangladesh with those followed in other well-functioning financial markets, focusing on key areas such as loan eligibility, interest rates, investor protection etc. to identify gaps in the current regulatory framework of Bangladesh. Recommendations for improving margin loan criteria have been provided based on the overall analysis. The goal is to make stock market participation in Bangladesh more lucrative and to ensure that trading through margin loans becomes safer and more rewarding for all investors and lenders.

LITERATURE REVIEW

Concept of Margin Loan

In a margin account, the client can borrow money from the margin financier to buy securities. The purchased securities, along with other assets in the account, serve as collateral for the margin loan. Margin lenders charge interest on the loan, which is higher than bank loan rates due to the associated risk. Investors must maintain a certain minimum margin in their accounts, for which they may need to add cash or securities, or sell margin securities when the market value changes. (U.S. Securities and Exchange Commission, 2021) Margin lending is a high-risk investment strategy

The Role of Regulation in Margin Lending

Margin loans increase the purchasing power of the investors and amplify the potential profit, increasing the % return from an investment against the equity that has been used to buy the security. (Fernando, 2025; U.S. Securities and Exchange Commission, 2021) On the other hand, it also amplifies the losses due to investing more in a poor-performing stock and the incurred interest. In terms of forced selling, investors cannot choose which stock to sell off from their account to cover the margin loan, thus increasing the risk. Investors may not even get an extension of time on a margin call. As margin loans increase the purchasing power of traders, they increase the liquidity of the market as more frequent and larger numbers of securities are traded. When there are more participants, the prices of stocks get closer to fair prices. (Brunnermeier & Pedersen, 2009) On the contrary, when market prices go down, forced selling can reduce liquidity and trigger more deleveraging. (Adrian & Shin, 2010)

Margin loans contribute to amplifying market fluctuation, and margin regulation can reduce systematic risk, provide a cushion against excessive losses, and lower the chances of negative equity. (Adrian & Shin, 2010) The Bangladesh Securities and Exchange Commission (BSEC) regulates margin lending in Bangladesh.

Regulatory Technology for Margin Lending Risk Management

A healthy financial market depends on high-quality regulations because they provide stability, transparency, lower risks, safeguard investors, and help prevent financial crises. Regulatory technology (RegTech), due to its capacity to automate and enhance compliance procedures, has become more popular in the banking industry. RegTech can also be used in margin lending to establish automatic stop-loss systems, update equity-to-debt ratios, and monitor accounts on a regular basis, all of which help reduce losses and effectively manage risks. In addition to compliance, research indicates that RegTech can lower expenses and improve overall efficiency and profitability. (Mamun et al., 2025)

REGULATORY FRAMEWORK IN BANGLADESH

Bangladesh Securities and Exchange Commission (Margin) Rules, 2025

The Bangladesh Securities and Exchange Commission (Margin) Rules, 2025 (Bangladesh Securities and Exchange Commission [BSEC], 2025), is the recently published updated margin rule that replaces the previously followed 'Margin Rule 1999.' The details of this new Margin Rule are discussed below.

Margin Account Agreement Requirements

Clients must sign a margin agreement before opening a margin account. If the client has any other margin account anywhere else, the details of it need to be submitted to the margin lender. The agreement will expire after one year and can be renewed after reviewing previous agreement requirements. If not renewed, the margin account should be closed within 30 trading days.

Clients Eligibility Criteria for Margin Loan

To be granted a margin loan, an individual should have experience of investing an average of at least 5 lakhs in the main board share market for a minimum of one year. Margin lending is not allowed for accounts where the

portfolio value is less than 5 lakhs. Students, housewives, and retired personnel are generally not eligible for a margin loan. However, high net worth individuals can obtain a margin loan even after retirement or while being a housewife.

Margin-Eligible Securities

Only A and B category stocks are eligible for margin trading. Additionally, only securities traded on the main board platform of stock exchanges are marginable.

Securities Ineligible for Margin Loan

B category companies that give a dividend lower than 5% will not be eligible for a margin loan. N, Z, and G category companies are also ineligible. Companies with a free float market capitalization below 50 crores, as well as securities not listed on stock exchanges, will not qualify for margin loans. Margin loans are not allowed for shares listed on the Alternative Trading Board (ATB), Over-the-Counter (OTC), or Small and Medium Enterprise (SME) boards due to their higher risk and low liquidity.

Margin loans will not be granted for securities with a trailing P/E ratio exceeding 2 times the sectoral median P/E or 30 P/E, whichever is lower. Brokers cannot offer margin on locked-in or liened shares, directors' shares, takeover-related securities, or restricted or pledged securities. If a company's audited report indicates a going concern threat, or if the company's operations are halted, margin loans will not be provided for its shares. Additionally, shares issued by the margin financier or its sponsor company are not eligible for margin loans.

Required Margin and Margin Call Rules

In the beginning, the margin loan cannot exceed the equity, so the initial margin requirement should ensure that the maximum Equity-to-Debt Ratio (EDR) is 1:1. For portfolios valued at 10 lakh or more, the highest allowed EDR is 1:1. For clients with portfolio values between 5 lakh and 10 lakhs, the maximum allowed EDR is 1:0.5. Margin loans for life insurance companies are permitted only after conducting an actuarial valuation, and the EDR for such clients should not exceed 1:0.25. If the market P/E of a security is above 20, the EDR ratio should not exceed 1:0.5. Additional margin loans cannot be provided based on unrealized gains or increases in portfolio value after opening the margin account; however, margin can be granted on realized gains. Portfolio value should be calculated based on the closing price of securities.

Maintenance margin is 75% (EDR 0.75:1). Equity cannot be less than 75% of the margin loan, and the portfolio value cannot be less than 175% of the margin loan. A margin call should be issued when the EDR reaches the 75% threshold. If the client does not restore the required margin within three trading days, forced selling must be conducted. Transactions are prohibited if the EDR is below 75% and the client fails to meet the margin requirement within three trading days. If the EDR falls below 50%, the lender may sell securities without prior notice. If the margin lender fails to enforce the sale on time, they will be held accountable for any resulting losses.

Exposure Limits for Margin Financing

Single-client exposure should not exceed 15% of the net worth of the margin financier or 10 crores, whichever is lower. The exposure limit for a single security is capped at 15% of the total outstanding margin loan of the margin financier. Additionally, the margin financier cannot provide margin loans exceeding three times its net worth (core capital) to prevent over-leveraging.

Interest and Charges on Margin Loan

Interest and other charges must be paid quarterly, either in cash or through the sale of shares. These charges and interest cannot be included as part of the margin loan. The margin financier will be held accountable for any losses incurred if securities are not sold on time to cover the payments.

Margin Loan Risk Management Measures

A margin lender cannot provide a margin loan without conducting KYC (Know Your Customer) profiling and assessing the client's risk profile. If a company later falls under the Z category or does not provide a dividend exceeding 5%, the shares must be sold within 60 trading days after notifying the client. Similarly, if the free-float market capitalization of a security falls below 50 crores, the security must be sold within 60 trading days.

Margin lenders must avoid insider trading. Employees, directors of a brokerage firm, or their related family members cannot open a margin account in the same firm to avoid conflict of interest. A separate margin account must be maintained exclusively for each client's margin financing transactions to ensure clear segregation from other operational or client accounts. Clients cannot take a margin loan to purchase shares in order to become a director of a company, nor can a company director take a margin loan to buy shares of the company he works for. Additionally, clients cannot pledge shares already held in their margin account to obtain a margin loan.

1% of the total outstanding margin loan should be recorded as a general provision. Clients may lodge a complaint against the margin lender with the stock exchange if the issue is not resolved within 15 days after submitting it to the margin financier. Margin loans cannot be provided from any branch office or digital booth of the margin financier company. Cheques, pay orders, or bank drafts cannot be accepted as margin until converted into cash. Margin loans may only be used to purchase stocks and cannot be withdrawn as cash or used for any other purpose.

Margin Financing: Firm-Level Risk Controls

Margin financiers cannot provide margin loans without complying with the Bangladesh Securities and Exchange Commission (Risk Based Capital Adequacy) Rules, 2019 (Bangladesh Securities and Exchange Commission, 2019). Failure to comply will result in a prohibition from providing further margin loans, and all margin loan-related activities must be closed within six months. Margin lenders should adopt conservative regulations to mitigate the following risks: the lender's own enterprise risk, client credit risk (where the amount of margin loan and required maintenance margin should be adjusted based on the client's risk profile), and systematic risk. They must also avoid conflicts of interest and maintain a list of marginable securities with conservative requirements aligned to the securities' risk profile.

Before granting a margin loan, the margin financier needs to analyze investment safety, fundamentals of securities, liquidity and salability of securities, client's regular income, capital appreciation potential, risk factors, tax impact, and securities market price trends. A dedicated research team of at least two qualified members should conduct risk profiling of securities. Additionally, a risk management team consisting of at least two members must be established to ensure compliance with all margin rules.

Stock Exchange Updates for Marginable Securities

Stock exchanges must notify on their website as soon as the P/E ratio of any security reaches 20. They are also required to update the free-float market capitalization of marginable securities regularly. Earnings per share (EPS) will be calculated based on the last four quarters, and negative P/E values should be excluded when calculating sector P/E. Stock exchanges will update the P/E ratios of marginable securities on a regular basis. Any going concern threats identified in audited reports must be disclosed, and exchanges should update information if the operations of main board companies are halted.

Reporting & Account Closure

Margin financiers need to update information related to margin loans, including details about their top 20 clients or any other margin-related information, on their online platform if required by the stock exchange or the commission. The stock exchange will inspect the margin financing company at least once a year to ensure compliance. Margin accounts should be closed within 15 days of a client's request, with securities and amounts transferred into a suspense account.

Regulatory Gaps in Margin Lending

Margin Rule 1999 had several shortcomings, including weak investor protection, unclear guidelines, insufficient restrictions, and poor risk management. Negative equity was reported to be 9,700 crores in 2024 (TBS Report, 2024), rising to 10,525 crores in 2025 (TBS Report, 2025). Over-leveraging, lack of monitoring, and unclear rules contributed to this high negative equity rate, which harms the overall economy.

The newly published Margin Rule 2025 is an improved version of the previous rule, designed to be clearer, more stringent, providing better guidance to control the downgrading situations. However, some ambiguity remains. Improved margin loan criteria with clear guidelines and proper safety measures are essential to prevent negative equity and restore the country's economic health.

METHODOLOGY

This qualitative research study incorporates both secondary data analysis and interviews with industry experts, which were conducted to gather primary information. It critically evaluates Bangladesh's margin loan regulations by comparing them with international best practices and the collected expert opinions to recommend actionable reforms.

Data Collection Methods

Secondary Data Collection

Secondary data was gathered from official website of Bangladesh Securities and Exchange Commission (BSEC), Financial Industry Regulatory Authority (USA), Australian Securities and Investments Commission (Australia), Canadian Investment Regulatory Organization (Canada), and State Securities Commission (Vietnam) to study their best and unique practices. Additionally, secondary data was collected from news articles, academic journals and reports.

Primary Data Collection

Primary data has been collected through semi-structured interviews with key professionals directly involved in margin loan operations and policy implementation. Key individuals were selected based on their relevance and expertise.

Interviewees include:

- One Risk Management Officer (Margin Loan Division)
- One Chief Executive Officer.
- One Managing Director of brokerage firms and financial institutions
- One Head of Equity Research and Margin Loan Team
- One Trader and Market Operator
- One Member of the BSEC

Interviews focused on institutional practices, challenges, regulatory gaps, risk management concerns, and reform recommendations. Participants were informed of the research purpose and their voluntary involvement. Verbal or written consent was obtained prior to interviews.

Data Analysis

Comparative Analysis

Margin loan regulations from well-regulated and efficiently functioning markets have been analyzed under the following categories:

- Loan eligibility and collateral requirements
- Interest rate structure and borrowing limits
- Risk management protocols
- Investor protection mechanisms

This comparative analysis highlights discrepancies and opportunities for regulatory improvement in Bangladesh.

Thematic Analysis of Interviews

Interview data has been analyzed using thematic content analysis. Common patterns and insights have been identified from the information gathered from interviews, focusing on current challenges, risk control mechanisms, regulatory inefficiencies, and recommendations for improvement.

Findings from interviews were integrated with secondary data to form applicable recommendations for improvement.

Findings & Discussion

Margin lending is a critical component. Different factors like lack of knowledge about the stock market, economic volatility, faulty auditing, and the amplified effect of market exposure have made margin lending riskier in Bangladesh. Therefore, strict regulation with proper clarity and an internal governance framework is necessary for healthy market conditions.

MARGIN LENDING PRACTICES IN WELL-FUNCTIONING FINANCIAL MARKETS

Different countries have different margin loan criteria, some similar across markets, while others tailored to the market's volatility, investor knowledge, and socio-economic conditions. This section discusses the most effective and unique practices from other well-functioning financial markets that could also be adopted in Bangladesh for improved regulation.

Best Practice from The United States

The margin loan criteria for the United States are mentioned on the official website of the SEC (U.S. Securities and Exchange Commission, 2021).

Initial Margin: Investors need to deposit either \$2,000 or 100% of the margin security price, whichever is less, as the minimum margin. (FINRA, 2021a; FINRA, 2021b) According to Regulation T of the Federal Reserve Board, investors can borrow up to 50% of the security's purchase price, with flexibility for margin financiers to impose more restrictive measures if they choose. (Board of Governors of the Federal Reserve System, n.d.)

Maintenance Margin: The minimum maintenance margin is 25%. Brokers can liquidate securities without prior notice if the EDR falls below 25%.

Freeriding: Freeriding is prohibited, and the account will be frozen for 90 days if this rule is violated. (Board of Governors of the Federal Reserve System, n.d.)

Interest Rate: Interest rates vary between brokerage firms and are not fixed. Interest rate depends on the loan size and a standard rate, like the Federal Funds Rate or the broker's Prime Rate. Interest is usually compounded monthly, which can increase the loan and the chance of a margin call if the value of the collateral drops. Margin lender must give written notice to its clients at least 30 days in advance if there are any changes. (LegalClarity Team, 2025a)

Key Margin Lending Guideline in Australia

The Corporations Legislation Amendment (Financial Services Modernization) Act 2009 advisors and issuers of margin lending facilities must hold an Australian Financial Services (AFS) license issued by ASIC. (Australian Securities and Investments Commission, n.d.)

Key aspects include:

- A strict licensing process is followed to ensure that only properly qualified and regulated entities offer margin loans. Detailed regulatory guidelines are provided that also cover training requirements for financial product advisors.
- Investors have the right to access external dispute resolution services for issues related to margin lending facilities. If a complaint arises, it can be submitted to the Australian Financial Complaints Authority (AFCA).

Notable Margin Lending Practice in Canada

In Canada, the Canadian Investment Regulatory Organization (CIRO) establishes standardized margin requirements for investment dealers and their clients. (Canadian Investment Regulatory Organization, 2024b)

List of Securities Eligible for Reduced Margin: CIRO provides a List of Securities Eligible for Reduced Margin (LSERM). (Canadian Investment Regulatory Organization, 2024a) Securities on this list are qualified for lower margin requirements. This list is updated quarterly based on specific criteria:

- **Price Volatility:** The security must have a price volatility margin of 25% or lower.
- **Liquidity:** The security should have a public float exceeding 100 million CAD and an average daily trading volume of at least 25,000 shares during each month of the previous quarter.
- **Price Threshold:** The security must be priced at \$2 CAD or higher per share.
- **Listing Duration:** The security should have been listed on a Canadian exchange and available for margin for at least six months.

Margin for Long Position: For securities priced above 2 CAD per share, a minimum maintenance margin of 50% is required. Stocks priced below 2 CAD have higher margins of 60–80% due to greater price volatility and lower liquidity (Canadian Investment Regulatory Organization, 2023). Dealers, as institutional investors with in-house risk management teams, are expected to manage risk better and respond quickly to market volatility. Therefore, they are subject to lower margin requirements than retail clients to encourage active trading and support a healthy demand cycle in financial markets.

Effective Margin Lending Regulation in Vietnam

In Vietnam, margin trading regulations are primarily issued by the State Securities Commission (SSC) and are guided by several key legal documents. (State Securities Commission of Vietnam, 2011) Some key margin rules have been discussed below:

- Securities need to be listed on a securities exchange for at least six months.
- Companies must submit timely, properly audited financial statements to qualify as marginable securities. If the listed company has suffered losses in the review period, according to the latest audited financial report, the security will not be marginable.
- The initial margin must be at least 50%, and the maintenance margin at least 30%.

- Brokers must calculate each margin account's margin ratio at the close of the trading day.
- Margin loans have a maximum term of three months and can be extended for an additional three months at the client's request.

Current Practices in BD Brokerage Firms with No Negative Equity

The margin loan practices observed in some leading brokerage firms are notably more restrictive than the regulatory guidelines set by the Bangladesh Securities and Exchange Commission (BSEC).

Client Onboarding and Loan Approval Process

A due diligence process is conducted before granting margin loans, assessing clients on factors like age, experience, net worth, education, risk aversion, holding period, and portfolio returns to generate a scorecard that determines their eligibility for margin loans. Clients with diversified, actively managed portfolios are favored over long-term stockholders.

Interest Rate Structure and Leverage Ratios

The margin loan interest rate is not fixed and depends on factors such as market liquidity, bank lending rates, and brokerage firm policies. Despite regulatory permission for a 1:1 margin ratio, many brokerage firms limit leverage to 1:0.8 to minimize systemic risk.

Marginable Securities and Stock Eligibility Criteria

Brokerage firms use a stock rating system and stock category to identify marginable securities, based on metrics like market capitalization, average daily turnover, earnings, valuation, volatility, and governance. Illiquid, speculative, and Z-category stocks are excluded to protect investors and margin financiers from manipulation or sharp devaluation.

Post-Loan Monitoring and Risk Controls

Equity value is measured on a mark-to-market basis to ensure that margin requirements are fulfilled, and in case of deviation, a margin call is given on time. Provisioning is done in firms to ensure the net average capital of brokerage firms is not overstated to prevent them from giving excessive margin loans.

After approval of a margin loan, firms track investor behavior, including stock selection, trading frequency, portfolio diversification, and responsiveness to market movements. Clients also should not have excessive idle money in their margin accounts. Considering the behavioral pattern, credit-extending decisions are taken.

Expert Recommendations for Policy Enhancements

For a healthier market cycle, leverage dependency should be reduced. Proper provisioning can make an intermediary insolvent due to negative equities. Margin loans are a trading tool, not a long-term investment, intended only for highly expert investors. In Bangladesh, average stock market returns are lower than margin loan interest rates, making long-term use unprofitable due to market downturns and interest compounding. (Mufazzal, 2025) They are best suited for short-term trading with actively managed positions. Experts from top brokerage firms have shared their opinions on improving the current framework.

Margin Loan Policies

Clear margin loan and credit rating policies should be maintained, along with proper broker-client communication, to prevent manipulation and protect investors.

Client Credit Rating Policy

A client's credit rating and scorecard should be generated to assess eligibility using factors such as wealth, stock market experience, historical returns, turnover/average equity, profession, age, regular income, average holding period, and document verification. Margin loans should be extended only to clients with sufficient knowledge and the ability to absorb losses.

Eligibility of Stocks

Stock risk profiles should be created based on liquidity, financials (earnings, NPAT, NAV), valuation indicators (P/E, P/B), volatility, corporate governance, and sustainability, and a stock rating should be assigned. This risk profile should determine stock eligibility, and margin requirements should be adjusted accordingly. A minimum free float of BDT 75 crore and a minimum 90-day average turnover of BDT 1 crore should be used as benchmarks to ensure sufficient liquidity before granting margin lending for the respective stock.

For mutual funds, eligibility should be based on NAV, capped at 90%, while closed-end mutual funds may be considered up to a 10% discount from NAV. For banks and NBFIs, NAV, ROE, and operational ability should be assessed.

Non-Marginable Securities & Sector-Based Limitations

Illiquid or manipulated securities, government and corporate bonds, as well as debentures, should be considered non-marginable.

Margin Requirements

According to a higher authority of a brokerage firm, EDR should be 70% for margin calls, and forced sales should occur at 50% EDR. However, according to the top management of other brokerage firms, higher requirements may be loss-incurring for clients during sudden market shocks, so the minimum margin requirements should be at an optimized level.

Haircut

Margin requirements should be risk-based, with higher requirements for riskier stocks such as banks and NBFIs. Assets with higher trading risk tend to require higher margin requirements to maintain market stability, margin financiers can use this idea to set margins for their clients accordingly. (Ahn, 2024)

Automatic Stop-Loss Systems

If a stock's price falls 20% below the purchase price, it should be automatically sold by the system. This will enforce discipline and reduce emotional decision-making.

Interest Rate

Interest rates should vary based on the stock risk profile and client credit rating, with higher rates for riskier securities.

Minimizing Negative Equity Risk

A minimum reduced netting of 10% at an EDR of 100% should be allowed to slow the pace of reaching the minimum required margin. Margin recall should be permitted, with stock-based recalls issued within 7 days and portfolio-based recalls within 30 days. Equity research should be conducted to assess stock performance and initiate early recalls when necessary.

Loan Amount

The total loan exposure should not exceed the lowest of the following: 10% of the stock's free float, 20% of the lender's total margin loan assets, or 100% of the lender's equity.

Margin Loan Agreement Renewal

Margin loan agreements should be renewed in less than one year. Margin loans should be revolving in nature, and interest should be paid off within 15 days.

Risk Tools

Margin accounts should be monitored daily, and mark-to-market should be conducted for portfolio valuation. Delayed margin calls can worsen losses. Retail investors should receive timely information so they can take prompt action to maintain margin requirements. Investors should also diversify their portfolios across sectors to mitigate sector-specific volatility.

Other recommendations:

Client associations must be documented before granting loans to avoid any conflict of interest. Corporate accounts should be prohibited from using margin loans, as they should focus on long-term investment. A marginable security index should be established based on detailed criteria and maintained by the stock exchanges. The government should ensure proper auditing of company financial reports, and only companies with reliable financials should be eligible. All terms stated in the margin lending guidelines should be clearly defined.

RECOMMENDED MARGIN LOAN CRITERIA FOR BANGLADESH

Policy-Level Recommendations for BSEC

The Securities Exchange Commission should provide a comprehensive yet balanced set of guidelines that can adapt to all market conditions. These margin rules should offer both margin financiers and investors the flexibility to engage in trades that optimize returns for both parties, while still being stringent enough to minimize the risk of negative equity. Some recommendations based on the previous analysis conducted in this research paper are discussed below.

Stock Dealer-Broker license

Licensing for margin lending should be strict and well-regulated. Margin financiers must meet criteria based on historical performance, broker and advisor qualifications, and training in margin lending and client profiling. Licenses must be renewed periodically and cancelled if negative equity rates are high or recurring.

Marginable securities

To ensure liquidity, stocks must have a minimum free float market capitalization of BDT 75cr. and an average turnover of BDT 1cr. over the last 90 trading days. Companies must submit timely, properly audited financial statements to qualify as marginable securities. Government/corporate bonds and debentures should not be marginable.

Client Assessment

BSEC should provide key factors for assessment, such as wealth, stock market experience, historical returns, turnover to yearly average equity, profession, age, regular income, average holding period, and document verification.

Stock Rating

BSEC should set criteria for marginable securities, including factors like liquidity, financials (earnings, NPAT, NAV), valuation (P/E, P/B), volatility, and governance. NAV, ROE, and operational ability should be assessed for banks /NBFIs. Stock rating should be conducted alongside categorization to determine eligibility, with requirements adjusted based on the stock's risk profile.

List of Securities Eligible for Reduced Margin (LSERM)

The BSEC can provide a LSERM based on factors such as price volatility, liquidity, price level, and listing duration. Securities with a lower risk profile can be subject to reduced margin requirements.

Margin Requirements

The required maintenance margin should be set at an optimized level, preferably 50–70% EDR, and forced selling should occur at 25–50% EDR. Proper research should be conducted to recommend a level that is beneficial for both clients and margin financiers. Forced selling at a lower EDR can increase the risk of negative equity, while too high a margin can make clients' portfolios vulnerable given the volatile stock market conditions in Bangladesh. Margin financiers may impose stricter requirements based on the risk profile.

Monitoring

Margin lenders must update the Equity-to-Debt Ratio (EDR) of each account daily after trading hours using mark-to-market adjustments. BSEC should have a monitoring team to ensure this is done regularly. Regulatory Technology (RegTech) can help margin lenders with monitoring by automating daily updates of EDR and ensuring compliance with regulatory requirements.

Automatic Stock-Specific Stop-Loss

An automatic stop-loss feature should be incorporated into the system. If a stock's price drops more than 20% from its purchase price, it should be sold immediately to limit losses, since a large holding in one poorly performing stock can significantly hurt the portfolio's overall EDR. RegTech can support this feature, instantly selling stocks that drop beyond set thresholds to limit losses and manage portfolio risk.

Reduced Netting

A minimum 10% reduction in netting should be allowed once the EDR reaches 100%, in order to slow the approach to the minimum margin requirement ratio.

Inclusion in The CIB Report

Including margin loans in the Credit Information Bureau (CIB) report can reduce financial risks by encouraging timely repayments and attracting creditworthy, active investors. (Habib, 2025)

Margin Recall

Margin financiers should be allowed to issue margin recalls when market research indicates that a stock's performance may decline and poses increased risk. Stock-based recalls should be given with a 7-day notice, while portfolio-based recalls should be given with a 30-day notice.

Renewal of Margin Loan agreements

Margin loans should be revolving, and the agreement should be renewed at six-month intervals, as margin loans are short-term trading tools. The renewal process should be smooth and not time-consuming, but the portfolio condition needs to be assessed before deciding the terms of the renewal agreement. The process should be in accordance with Bangladesh Bank guidelines.

Freeriding

Freeriding is when an investor buys securities without depositing the required cash or margin, sells them before paying, and uses the sale proceeds to cover the purchase. This creates artificial demand and high risk as the price of the security may drop. To maintain healthy margin accounts, freeriding should be explicitly prohibited, and the account should be frozen for 90 days if violated.

Suggested Reforms for Margin Financers

Margin financers should operate under more detailed regulations that are tailored to specific clients and stock profiles, while remaining within the limits set by the BSEC. Some recommendations based on expert interviews are discussed below.

Client Credit Rating Policy

Margin lenders should create and follow a proper credit rating policy to assess clients. Factors like wealth, educational background, historical return of their portfolio, profession, age, turnover to yearly average equity, income, and average holding period can be used to assess clients by assigning weight to each factor based on its significance and relevance to trading. A weighted average value can be used to determine the credit rating. Scorecards should be generated before granting a margin loan. The maximum amount that can be given as a margin loan should also reflect the credit rating of the respective client.

Equity Research

Margin lenders should have a strong backend research team or collaborate with a third party to analyze securities fundamentals and determine eligibility for margin lending.

Stock Risk Profiling

Factors like liquidity, financials (earnings, NPAT, NAV), valuation (P/E, P/B), volatility, corporate governance, and sustainability should be considered when ranking stocks. Each factor can be weighted by significance, and a weighted average should determine the stock rating, which should align with stock categorization. The maximum margin loan for each stock and single-stock exposure should be adjusted according to the risk profile.

Margin Requirements

Margin requirements should be increased above the minimum threshold based on the risk profile of the securities and clients.

Loan Amount

The total loan exposure should not exceed the lowest of the following: 10% of the stock's free float, 20% of the lender's total outstanding margin loan, or 100% of the lender's equity.

Interest Rate

Interest rates should vary based on factors like bank rates, market conditions, and risk levels. During high stock market volatility, rates on margin loans should be higher to discourage excessive borrowing. Clients with risky profiles or loans for risky securities should also face higher rates, to discourage over-leveraging or from investing beyond their risk capacity.

Reduced Netting

The reduced netting percentage, when the EDR reaches 100%, should be decided based on the client's behavior and how actively and properly they maintain their margin account. Active and experienced clients should be allowed a higher netting adjustment (i.e., lower reduced netting).

Provisioning

Margin financiers should make provisions exceeding the general requirement of 1% on outstanding margin loans, based on the EDR ratios of their portfolios and any other necessary provisions to avoid overstating assets.

CONCLUSION

Margin lending can lead to over-leveraging, financial market instability, erosion of portfolio value, and overall deterioration of the economic health of a country if not managed properly. Proper regulation with clarified, stringent policies should be followed for margin lending. The Securities and Exchange Commission should provide clear margin loan criteria that must be followed by all service providers and investors to minimize risk exposure. Margin financier, on the other hand, should follow their own customized regulatory policies that incorporate all the factors related to specific clients' and securities' risk profiles for more logical, regulated decision-making to ensure the best interests of both clients and the margin lenders.

This paper emphasizes BSEC's role in creating a clear and enforceable regulatory environment, as well as the requirement for margin financier to implement detailed client credit assessments and stock-specific risk profiling based on key factors.

Automatic stop-loss systems, flexible loan structures, varying interest rates based on client profiles and stock ratings, and netting adjustments are key recommendations provided in this paper to maintain portfolio health and overall market stability. These recommendations are categorized into two sections: policy-level recommendations for BSEC and more specific margin loan criteria for margin lenders. By adopting these measures, Bangladesh can build a better-performing margin trading system.

RESEARCH IMPLICATIONS AND FUTURE RESEARCH AREA

This research has been conducted to recommend an improved version of the newly published BSEC Margin Rule 2025, one that addresses key risk areas and provides detailed guidance, drawing on insights from interviews with market experts and relevant margin rules from well-functioning markets.

Further research can be conducted to identify and clarify key factors specific to Bangladesh's market and economic conditions, quantify existing limitations, and establish clear minimum and maximum thresholds that all margin finance providers should adhere to.

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