

# MARGIN RISK DISCLOSURE DOCUMENT

*Important Information for Margin Account Holders*

**Effective Date:** As per SEBI Circular | **Classification:** Mandatory Compliance | **Applies to:** All Trading Clients

## **IMPORTANT WARNING**

*Margin trading involves a high level of risk and may not be suitable for all investors. You may lose more than your initial deposit. Before engaging in margin trading, you must fully understand the risks involved, your financial situation, and your investment objectives. Please read this disclosure document carefully and in its entirety.*

## **1. INTRODUCTION TO MARGIN TRADING**

Margin trading is a method of investing in financial securities using borrowed funds provided by a brokerage firm. By using leverage, investors can control positions larger than the amount of capital they have directly deposited, potentially amplifying both gains and losses.

This Margin Risk Disclosure Document is provided in accordance with applicable securities regulations and industry standards. It is designed to ensure that all current and prospective margin account holders are fully informed of the significant risks associated with margin trading before engaging in such activity.

By opening or maintaining a margin account, you acknowledge that you have read, understood, and accepted the risks described in this document. This disclosure does not constitute financial advice and should not be relied upon as such.

## **2. HOW MARGIN TRADING WORKS**

When you open a margin account, you deposit a minimum amount of capital known as the initial margin. Your broker then lends you additional funds to purchase securities beyond what your deposit alone would allow. The securities in your account serve as collateral for the borrowed funds.

### **2.1 Key Margin Concepts**

- **Initial Margin:** The minimum percentage of a security's purchase price that must be deposited by the investor. Typically set at 50% by regulatory requirements, though brokers may require more.
- **Maintenance Margin:** The minimum account equity that must be always maintained. If your account falls below this threshold, a margin call is triggered. Standard maintenance margin is commonly set at 25%, though brokers may set higher requirements.
- **Margin Call:** A demand by your broker for you to deposit additional funds or securities to restore your account to the required maintenance margin level.
- **Buying Power:** The total value of securities you can purchase using a combination of your own funds and borrowed capital.
- **Leverage Ratio:** The ratio of borrowed funds to your own equity. Higher leverage amplifies both potential gains and potential losses proportionally.

### 3. KEY RISK FACTORS

The following risks are inherent to margin trading and must be carefully considered before opening or maintaining a margin account. These risks are not exhaustive, and additional risks may apply based on individual circumstances and market conditions.

#	Risk Category	Description
1	Loss Exceeds Deposits	Due to high leverage, you may lose more funds than you deposited. Losses are not capped at your initial deposit amount, and you may owe additional sums to the broker.
2	Forced Liquidation	If your account falls below maintenance margin requirements, the broker may liquidate your positions immediately without consent or prior notice to cover the shortfall.
3	Margin Calls	You may be required to deposit additional cash or securities at short notice. The amounts required can be substantial and may not be convenient to meet.
4	No Extension Rights	You are not entitled to extensions of time on a margin call. The broker is not required to notify you before selling your securities to meet margin requirements.
5	Rehypothecation	Brokers may pledge your securities as collateral for their own financing. This means your assets may be lent to third parties, creating counterparty risk.
6	High Interest Costs	Borrowing on margin incurs financing charges that accrue over time. These costs reduce your overall returns and may result in losses even when positions perform positively.
7	Rate & Rule Changes	Brokerage firms may change margin requirements, interest rates, and trading rules at any time without prior notice, potentially affecting your existing positions.
8	Voting Rights Loss	When the firm maintains a margin account, it has the right to hypothecate or lend shares held in your margin account. When shares are lent and remain outstanding over a voting record date, you may lose your voting rights on all or a portion of those shares and will not be eligible to vote them.
9	Dividend Tax Risk	When shares are lent under the terms of the Margin Agreement past a dividend record date, you are at risk of receiving payments-in-lieu of dividends rather than actual dividends. Such payments may be treated as ordinary income, causing you to lose the benefit of preferential tax treatment applicable to dividends.

### 4. DETAILED RISK DESCRIPTIONS

#### 4.1 Loss Exceeding Deposited Funds

One of the most significant risks of margin trading is the potential to lose substantially more than your initial investment. Because margin allows you to control a larger position than your equity would otherwise permit, adverse market movements are magnified correspondingly.

Example: If you deposit ₹10,000 and borrow an additional ₹10,000 to purchase ₹20,000 of securities, a 30% decline in the value of those securities results in a ₹6,000 loss — representing 60% of your original deposit — plus any accrued interest charges on the borrowed funds.

## 4.2 Forced Liquidation Without Notice

Your broker has the contractual and legal right to liquidate some or all of your securities without contacting you first if your account equity falls below the required maintenance margin level. The broker may choose which securities to sell and at what price, and you have no right to dictate the order or timing of such sales.

Securities may be sold at a loss during forced liquidation, including during periods of extreme market volatility when prices may be depressed. You remain liable for any resulting deficiency in your account.

## 4.3 Margin Calls and Additional Collateral Requirements

A margin call requires you to promptly deposit sufficient funds or securities to restore your account to the required maintenance margin level. You may be given as little as a few hours or less to meet a margin call, depending on market conditions and broker policies.

Failure to satisfy a margin call may result in the forced liquidation of your positions. You should never assume that you will receive a margin call or have adequate time to respond before positions are liquidated.

## 4.4 Rehypothecation Risk

Under standard margin agreements, your broker may use your securities as collateral for the broker's own borrowing. This practice, known as rehypothecation, means your assets may be pledged to third-party lenders. In the event of broker insolvency, your securities may not be immediately returned and may be subject to the claims of the broker's creditors.

## 4.5 Interest Costs and Financing Charges

Margin borrowing carries ongoing interest charges based on the amount borrowed and the prevailing margin interest rate. These charges accumulate daily and are deducted from your account, reducing your overall returns. During extended holding periods, interest charges can become substantial and may contribute to losses even if the underlying securities appreciate modestly.

## 4.6 Volatility and Market Risk

Margin trading amplifies exposure to market volatility. Rapid or unexpected price movements — including those triggered by economic data releases, geopolitical events, earnings announcements, or broader market dislocations — can rapidly erode account equity and trigger forced liquidations with little warning.

## 5. INVESTOR OBLIGATIONS & RESPONSIBILITIES

By maintaining a margin account, you acknowledge and accept the following obligations:

- You will monitor your account equity continuously and take prompt action to meet margin requirements as they arise.
- You will maintain sufficient liquid funds available to deposit if a margin call is issued.
- You have read and understood all terms and conditions set forth in the margin agreement provided by your broker.
- You understand that past performance of securities does not guarantee future results and that leverage magnifies the risk of loss.
- You accept that your broker reserves the right to modify margin requirements, interest rates, and account terms at any time without prior notice.

- You will seek independent financial and tax advice before engaging in margin trading strategies.

## 6. SUITABILITY CONSIDERATIONS

Margin trading is generally not suitable for all investors. You should carefully consider whether margin trading is appropriate for you in light of your:

- Investment experience and knowledge of leveraged products
- Financial situation and ability to sustain significant losses
- Investment objectives and time horizon
- Risk tolerance and psychological capacity to manage leveraged positions
- Liquidity needs and ability to respond quickly to margin calls

If you are uncertain whether margin trading is appropriate for your circumstances, you should consult with a qualified financial advisor before proceeding.

## 7. REGULATORY FRAMEWORK

Margin trading in securities markets is subject to regulatory oversight and requirements that govern minimum margin levels, eligible securities, and broker conduct. Regulatory bodies including the Securities and Exchange Board of India (SEBI), the Reserve Bank of India (RBI), and applicable stock exchanges (NSE, BSE) establish baseline margin rules which brokers may supplement with their own, more stringent, requirements.

Brokers are required to disclose margin terms and maintain records of margin accounts in accordance with applicable regulations. Investors are encouraged to review the specific regulatory requirements applicable in their jurisdiction.

## 8. INVESTOR ACKNOWLEDGMENT

- By opening or maintaining a margin account, you confirm that:
- You have read this Margin Risk Disclosure Document in its entirety.
- You understand the nature and extent of the risks involved in margin trading.
- You are aware that losses may exceed your deposited funds.
- You accept that the broker may liquidate your positions without prior notice.
- You have considered whether margin trading is suitable for your financial circumstances.

## 9. DAY TRADING RISK DISCLOSURE

Day trading is when you are actively pursuing a trading strategy that involves buying and selling the same security on the same day. Day trading can be very risky and may not be appropriate for customers with limited resources, limited investing or trading experience, or a lower risk tolerance.

- 1) **Day trading can be extremely risky.** Day trading generally is not appropriate for someone of limited resources and limited investment or trading experience and low risk tolerance. You should be prepared to lose all of the funds that you use for day trading. In particular, you should not fund day-trading activities with retirement savings, education funds, emergency funds, or funds required to meet your living expenses.

- 2) **Be cautious of claims of large profits from day trading.** You should be wary of advertisements or other statements that emphasize the potential for large profits in day trading. Day trading can also lead to large and immediate financial losses.
- 3) **Day trading requires knowledge of securities markets.** Day trading requires in-depth knowledge of the securities markets and trading techniques and strategies. In attempting to profit through day trading, you must compete with professional, licensed traders employed by securities firms. You should have appropriate experience before engaging in day trading.
- 4) **Day trading requires knowledge of a firm's operations.** You should be familiar with a securities firm's business practices, including the operation of the firm's order execution systems and procedures. Under certain market conditions, you may find it difficult or impossible to liquidate a position quickly at a reasonable price. In addition to normal market risks, you may experience losses due to system failures.
- 5) **Day trading may generate substantial commissions.** Day trading involves aggressive trading, and you may pay commissions on each trade. The total daily commissions that you pay on your trades will add to your losses or significantly reduce your earnings.
- 6) **Day trading on margin may result in losses beyond your initial investment.** When you day trade with funds borrowed from a firm or someone else, you can lose more than the funds you originally placed at risk. A decline in the value of the securities that are purchased may require you to provide additional funds to the firm to avoid the forced sale of those securities or other securities in your account.

#### **DISCLAIMER**

*This Margin Risk Disclosure Document is prepared for educational and informational purposes based on general market disclosures and industry standards. It does not constitute financial, legal, or investment advice, nor does it create a client-broker relationship. The information provided herein is general in nature and may not reflect the specific terms, conditions, or requirements of any brokerage firm. Investors are strongly encouraged to read the specific Risk Disclosure Document and margin agreement provided by their broker, and to seek qualified independent financial and legal advice before engaging in margin trading activities.*