ICRA

SECURITIES BROKING

Broadening of MTF funding sources likely to ease structural reliance on commercial paper

JUNE 2026

#35YearsofUnwaveringCredibility

Highlights

Click to Provide Feedback

CP have emerged as a primary funding source for MTF, accounting for over 85% of borrowings among top players; brokers make up ~20% of the outstanding CP

While the lower cost of funds and better tenor matching are expected to keep CP issuances dominant in the borrowing mix of top securities brokers, a gradual 10-20% rebalancing towards NCDs is likely

On June 18, 2026, the Securities and Exchange Board of India (SEBI) issued a consultation paper aimed at enhancing operational efficiency while strengthening risk management and margining practices in the margin trading facility (MTF) segment. The proposals include expanding funding avenues to incorporate non-convertible debentures (NCDs), enhancing flexibility in the deployment of net worth towards MTF, broadening the eligible collateral base, revising the eligibility criteria for brokers offering MTF, and allowing fungibility of unencumbered client funds and securities between normal and MTF ledgers. Complementing these structural changes, the paper also outlines ease of doing business measures, including a 30-day rebalancing window for changes in security eligibility, and pragmatic treatment of breaches in the 10% client exposure limit arising from passive reductions in the overall exposure.

Driven by rising retail participation, industry-wide MTF exposures expanded over 40x between March 2020 and May 2026, notwithstanding intermittent corrections. During this period, securities brokers with competitive access to money markets garnered the lion's share of the industry MTF, with the top 15 players accounting for over 90% of gross exposures in March 2026. As commercial paper (CP) emerged to be the primary funding source for MTF, comprising over 85% of borrowings among these top 15 players, the securities broking industry now makes up ~20% of the overall CP outstanding. While the increasing reliance on CP reflects cost efficiency and alignment with the short-tenor nature of MTF, concentration towards money market borrowings and the recent curtailment of bank funding lines for MTF underscore the need for diversification of funding sources.

The proposed measures aim to expand the funding avenues available to securities brokers through the inclusion of NCDs. Given that NCD issuances have typically been priced up to 100 basis points (bps) above CP for select capital market participants, any migration towards NCDs would depend on the cost differential in borrowings and the trade-off with liquidity risk mitigation through diversification. While CP is likely to remain the primary funding source, a gradual rebalancing – potentially in the range of 10-20% – towards NCDs cannot be ruled out (if implemented), translating into incremental NCD issuances of Rs. 10,000-20,000 crore. Correspondingly, some moderation in CP issuances may emerge, imparting a softening bias to funding costs in the money market.

SEBI proposes measures to enhance operational efficiency and strengthen risk management and margining in the MTF segment

ICRA

Funding sources for MTF to be expanded to include NCDs and other debt instruments, along with existing avenues such as own funds, bank/non-banking financial company (NBFC) borrowings, CP, and unsecured loans from promoters & directors

Enhanced flexibility in deploying net worth for MTF, with limits proposed to transition from a 50% cap on net worth to a ring-fenced framework, defined as the lower of twice the minimum net worth requirement for broking operations or 50% of net worth

Fungibility of unencumbered funds or securities between the normal ledger and MTF ledger of client to be permitted, with excess cash collateral in MTF ledger made subject to periodic running account settlement

Collateral eligible for acceptance by clearing corporations in the normal cash market may be extended to MTF, with potential expansion beyond – equity shares[1] and cash and cash equivalents[2] to also encompass corporate bonds and other mutual fund units

Ease of doing business measures include a 30-day rebalancing window for changes in security eligibility, inclusion of limited liability partnership brokers for offering MTF, and consideration of breaches of the 10% client exposure limit due to the reduction in overall exposure as passive

Source: SEBI, ICRA Research; [1] With impact cost up to 0.1% and traded over 99% of days over period of preceding six months; [2] Units of overnight mutual funds (MFs), liquid MFs, Treasury bills (T-bills), Government securities (G-Sec)/MF schemes investing in G-Secs

MTF's prevalence has increased in recent years

What is MTF?

MTF refers to the facility under which a part of the transaction value, at the time of purchase of shares, is paid by the broker. The initial margin is payable by the client in the form of cash, cash equivalent or equity shares* with an appropriate haircut

Who can provide MTF?

Brokers with a net worth of at least Rs. 3 crore are allowed to offer MTF. The broker's MTF exposure cannot exceed the borrowed funds and 50% of the net worth, wherein borrowings for the purpose of MTF cannot exceed 5x of net worth

What are the sources that can be currently used for extending MTF?

Besides the broker's own funds, borrowed funds from scheduled commercial banks and NBFCs, borrowings by way of issuance of CP and in the form of loans from promoters & directors

Which securities are eligible for MTF?

All equity shares that are classified as Group I security^, as per Section 1.1.3 of Chapter IV of SEBI Master Circular No. SEBI/HO/MRD/DP/CIR/P/117, are eligible for MTF

*Source: ICRA Research; * Stocks, which have traded at least 99% of the days for the previous six months with impact cost of less than 1%; ^ Stocks, which have traded at least 80% of the days for the previous six months with impact cost of less than 1%*

MTF scale has ramped up, aided by the evolving framework, with progressive refinements enabling broader participation

Refinements between June 2017 and May 2024

The MTF framework has evolved through periodic regulatory refinements aimed at balancing access and risk oversight. A comprehensive review in 2017 broadened funding avenues beyond bank/NBFC lines to include instruments such as CP as well as promoter and director-level unsecured funding, while introducing tighter guardrails around eligible collateral, and monitoring mechanisms. This laid the groundwork for wider adoption. Subsequent changes have focussed on incremental calibration. In 2022, units of equity exchange-traded funds (ETFs) classified under Group I were permitted both as eligible securities and as collateral under MTF.

The calibration was further tightened in May 2024, with revised eligibility norms for equity collateral restricting inclusion to securities meeting stringent liquidity filters, namely trading on over 99% of days during the preceding six months and maintaining an impact cost below 1%. This reinforced the risk management framework.

Introduction of flexibility in use of client cash collateral for MTF pay-in

In September 2024, SEBI allowed client cash collateral to be used for MTF pay-in, with equivalent securities treated as the margin. However, this structure elevated the overall risk, as the margin is effectively linked to the same underlying funded stock, with a decline in the funded security simultaneously weakening the exposure as well as the collateral. Accordingly, the framework prescribed a higher margin requirement of value at risk (VAR) + 5x extreme loss margin (ELM) vs. VAR + 3x ELM.

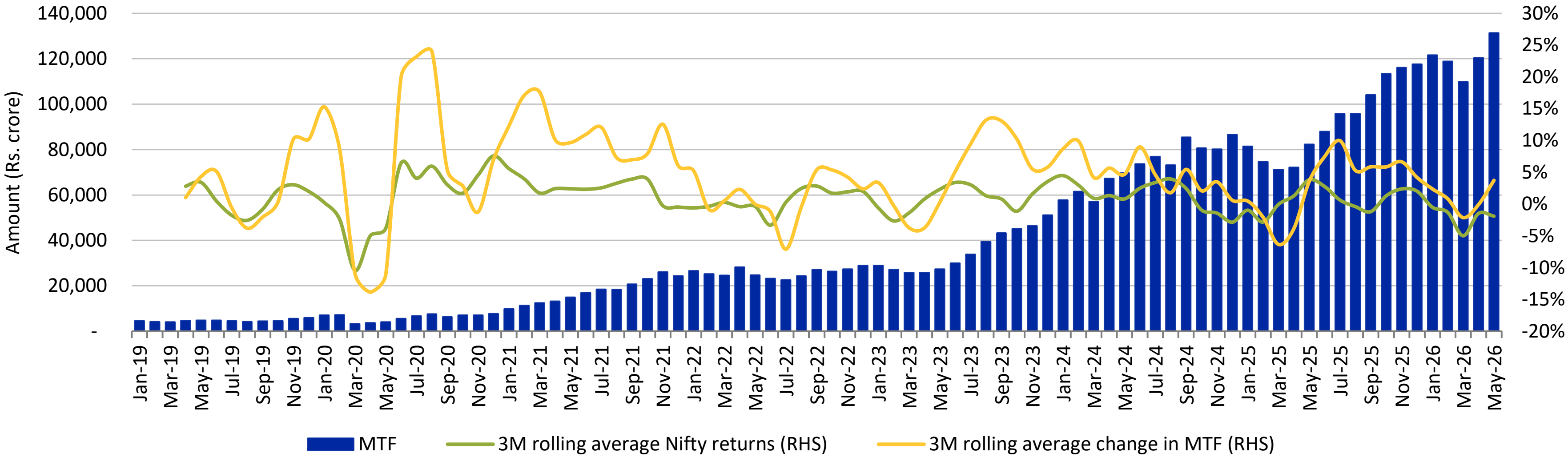
Rs. crore	Cash used for pay-in	Cash not used for pay-in (upstreamed)	Securities as collateral (margin pledge)
Client contribution	10,000	10,000	10,000 (after haircut)
VAR		9.5%	
ELM		3.5%	
Initial margin requirement		VAR +3* ELM = 20%	
Initial margin	10,000	10,000	10,000
Gross exposure (t day)	50,000	50,000	50,000
Funds used for pay in (t+1 day)	10,000	-	-
Net funding (t+1 day)	40,000	50,000	50,000
Maintenance margin (t+1 day)	10,000	10,000	10,000
Value after VAR as haircut – A	9,050	10,000	10,000
Maintenance margin requirement	VAR + 5*ELM	VAR +3*ELM	
Maintenance margin (% of net funding)	27%	20%	20%
Maintenance margin – B	10,800	10,000	10,000
Margin shortfall A-B	-1,750	0	0

Brokers utilising client cash collateral as pay-in for the MTF position benefitted from better working capital flexibility and higher leverage headroom. In contrast, brokers adopting a gross reporting framework could offer MTF to their clients for relatively lower margin requirements.

Source: SEBI, ICRA Research

Supported by rising retail participation, MTF exposures have exhibited structural growth, with short-term trends tracking broader market movements

Exhibit: Trend in industry-wide gross MTF exposures



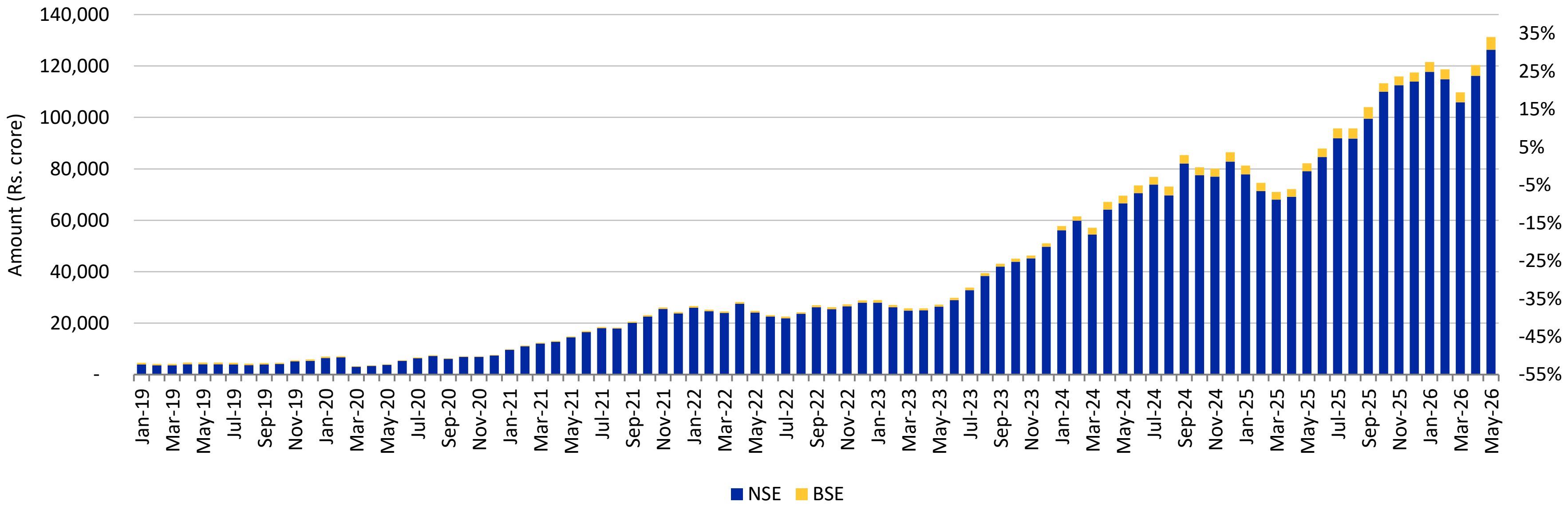
- Supported by rising retail participation, industry MTF exposures expanded by more than 40x between March 2020 and May 2026, despite intermittent corrections amid market volatility, compared to the threefold increase in Nifty 50. From October 1, 2025, revised MTF reporting led to the shifting of several brokers to gross reporting^, resulting in some optical growth. Even after adjusting for this, the underlying growth has remained strong.
- Following the moderation in Q4 FY2026, gross MTF exposures rebounded to a new peak of Rs. 1.31 lakh crore as on May 31, 2026, underpinned by investors tactically leveraging the recent market correction amid geopolitical volatility.

Source: ICRA Research, NSE, BSE; ^ A sample balance sheet representation capturing the difference between gross and net MTF reporting is captured in the annexures for reference

Alongside growth, exchange-level contribution to MTF exposures has seen some broadening, though it remains skewed

ICRA

Exhibit: Trend in exchange-wise contribution in MTF exposures

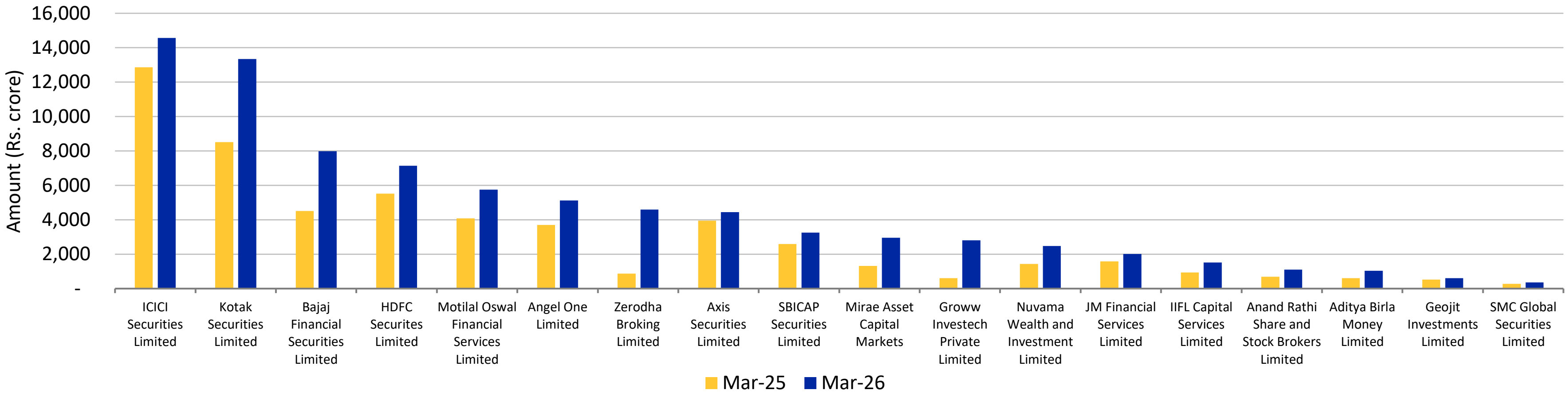


- BSE's share in industry-wide MTF exposures increased to over 4% as of May 2026 from ~2% in April 2021, likely reflecting incremental shifts in trading activity and participation dynamics. Nonetheless, industry MTF exposures remain predominantly concentrated at NSE.

Source: ICRA Research, NSE, BSE

Securities brokers with sizeable client base and healthy capital position account for dominant share of industry-wide MTF

Exhibit: Net client funding exposures across leading securities brokers

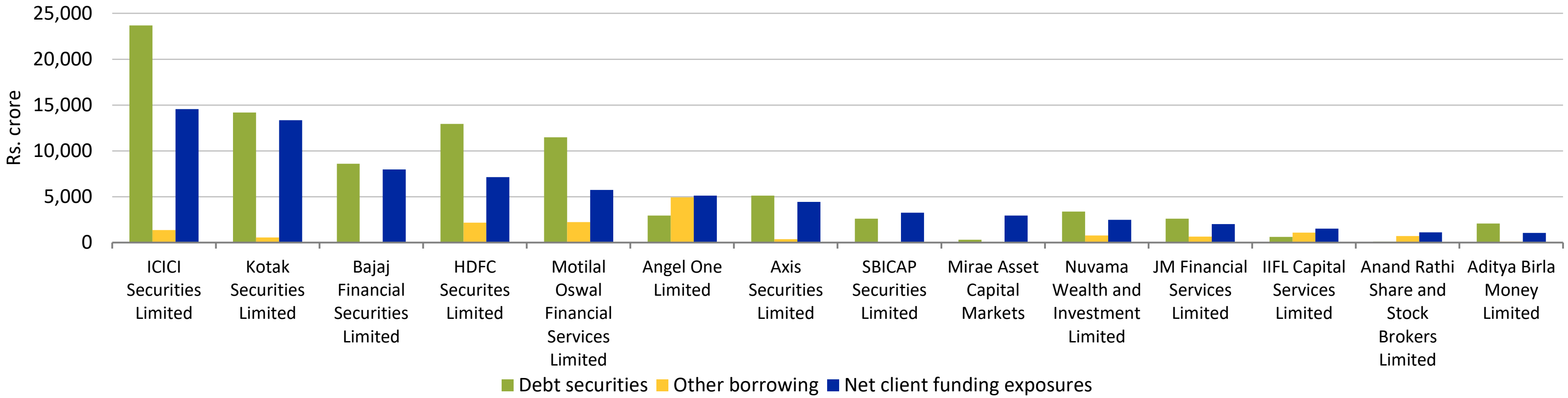


Source: ICRA Research, NSE, BSE; For select brokers, the above exposures also encompass modest ESOP-linked and other related-party exposures

- Established players with a healthy capital base and sizeable client base account for the lion's share of industry-wide MTF exposures. The top 15 players, accounting for ~78% of active NSE clients, are estimated to have contributed over 90% to gross exposures as on March 31, 2026.
- Competitive intensity has, however, increased with discount brokers foraying into MTF, now estimated to account for ~27% of the industry MTF book (up from ~20% a year ago). Full-stack brokers have also raised their share to ~23% (from ~20%), supported by their diversified client base and franchise depth. While bank-backed brokers have ceded market share, they continue to lead with ~49% (albeit down from ~60% a year ago), aided by their competitiveness in money market borrowings, and occupied three of the top 5 positions as of March 2026.

CP issuances have emerged as the leading liability source for funding MTF

Exhibit: Funding mix and net client funding exposures of leading securities brokers



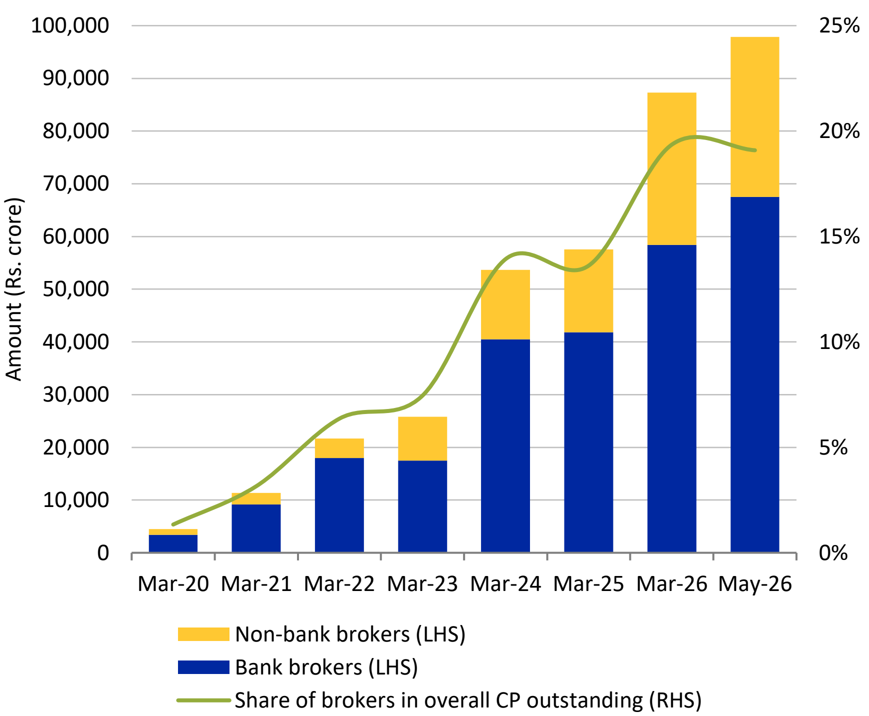
Source: ICRA Research; Debt securities primarily comprise CP borrowings; A portion of CP borrowings equiavlent to client cash collateral not utilised for pay-in obligations, is also deployed towards MTF

- Players primarily rely on CP to fund MTF exposures, given the behavioural short-tenor of MTF exposures, along with their ability to access such funding at competitive rates. In contrast, smaller players used to rely on relatively high-cost credit lines from banks/NBFC lines along with unsecured loans from promoters and directors. While bank funding is permitted for MTF, recent tightening (effective July 1, 2026) has increased margins to 100%, rendering such lines largely unviable; these also attract higher risk weights as capital market exposures.
- Select brokers have utilised commercial paper for working capital and on-balance-sheet liquidity; in contrast, brokers with borrowings lower than MTF exposures have deployed a higher share of net worth towards funding MTF.

Consequently, brokers' share in overall CP outstanding has reached record levels; proposed steps will enable some diversification in the funding mix

ICRA

Exhibit: Trend in CP outstanding of securities brokers



Source: ICRA Research

Driven by the unprecedented rise in MTF exposures, aggregate CP outstanding across securities brokers rose to about Rs. 1 lakh crore, accounting for ~19% of overall CP outstanding in May 2026 (up from 1% in March 2020). Within the securities broking segment, bank-led brokers account for ~13% of overall CP outstanding while non-bank players account for ~6%. About 76% of the CP is in tenor below ~91 days and is largely held by MFs while the longer tenure CP is typically subscribed by other corporate bodies. The high reliance on CP is the outcome of structural constraints in terms of limited borrowing avenues, besides cost efficiency and alignment with the short-tenor nature of MTF exposures. However, the resultant concentration towards CP, coupled with the recent curtailment in bank lines for funding MTF, underscores the need for diversification in funding avenues.

The proposed measures aim to expand funding avenues available to securities brokers through the inclusion of NCDs and other debt instruments, alongside other existing sources. Given that NCD issuances have typically been priced up to 100 bps over CP for a few capital market participants, meaningful migration towards NCDs would depend on the cost differential in borrowings and trade-off with liquidity risk mitigation through funding diversification. While CP issuances are expected to remain the primary funding source, a gradual rebalancing – potentially in the range of 10-20% – towards NCDs cannot be ruled out. If implemented, this could translate into incremental NCD issuances of Rs. 10,000-20,000 crore. Correspondingly, some moderation in CP issuances may emerge, which could lead to a softening bias on funding costs from money markets.

Proposed measures also seek to increase minimum net worth requirements for broking operations while enhancing flexibility in capital deployment towards MTF

ICRA

Proposed measures aimed at enhancing minimum net worth requirements for broking operations

To ensure adequate net worth for the scale of broking operations, SEBI introduced the concept of variable net worth in 2022, requiring brokers to maintain net worth as the higher of base net worth or 10% of the average daily client cash balances retained over the preceding six months.

However, following the regulation pertaining to the compulsory upstreaming of client funds, which has resulted in the retention of lower cash balances by brokers, the variable net worth requirement under the extant framework was considered inadequate relative to the scale of operations. Accordingly, the regulator proposed measures in April 2026 to strengthen risk management and investor protection, prescribing variable net worth as the aggregate of: (i) 10% of average client credit balances over the past six months, and (ii) client count-linked capital requirements. For direct clients, the additional requirement starts from Rs. 50 lakh (for 10,000-50,000 clients) and increases by Rs. 50 lakh for every incremental 50,000 clients (or part thereof). For clients served through authorised persons (APs), the requirement ranges from Rs. 5 lakh (up to 2,500 clients), Rs. 25 lakh (2,500-10,000 clients), and Rs. 50 lakh for every additional 10,000 clients (or part thereof), aggregated across segments and exchanges.

As per ICRA's estimates, the proposed regulations could increase the minimum net worth requirements up to 10% for most players; nonetheless, their capital positions have significant cushions over the minimum net worth requirements.

Proposed guidelines aim to provide flexibility for net worth deployment in MTF

The current proposed measures also aim to enhance the flexibility of securities brokers in deploying a higher share of their net worth for MTF positions.

As per the extant regulations, the maximum allowable exposure of the broker towards MTF shall be within the self-imposed prudential limits and shall not, in any case, exceed the borrowed funds and 50% of the net worth*.

The proposed steps look to enhance flexibility in capital deployment by reducing the portion of the minimum net worth required to be ring-fenced for broking operations. Under the current proposal, a stockbroker's MTF exposure is required to remain within internally defined prudential limits and cannot, in any case, exceed the combined extent of the borrowings and net worth. However, the net worth available for such deployment is constrained by the requirement to ringfence a portion for core broking operations, which would be the lower of (i) 2x the minimum net worth prescribed for broking and allied activities, and (ii) 50% of the total net worth. Accordingly, only the balance net worth, after such ring-fencing, is available for MTF deployment. This, together with borrowings, supports exposure, subject to an overall leverage cap of 5.5x the net worth.

As per ICRA's estimates, most bank-affiliated brokers are likely to gain additional flexibility, with the ability to deploy an incremental 50-75% of currently permissible net worth towards MTF, whereas full-stack brokers are expected to see limited incremental benefit.

*Source: ICRA Research; * Net worth shall include paid-up capital and free reserves but shall not include fixed assets, pledged securities, non-allowable securities (unlisted securities), bad deliveries, doubtful debts and advances (debts or advances overdue for more than three months or debts or advances given to associate persons of the member), prepaid expenses, losses, intangible assets and 30% value of marketable securities*

Comfortable buffers over minimum net worth requirements position brokers to benefit from improved capital utilisation while supporting growth aspirations

Exhibit: Net worth deployment and gearing across brokers

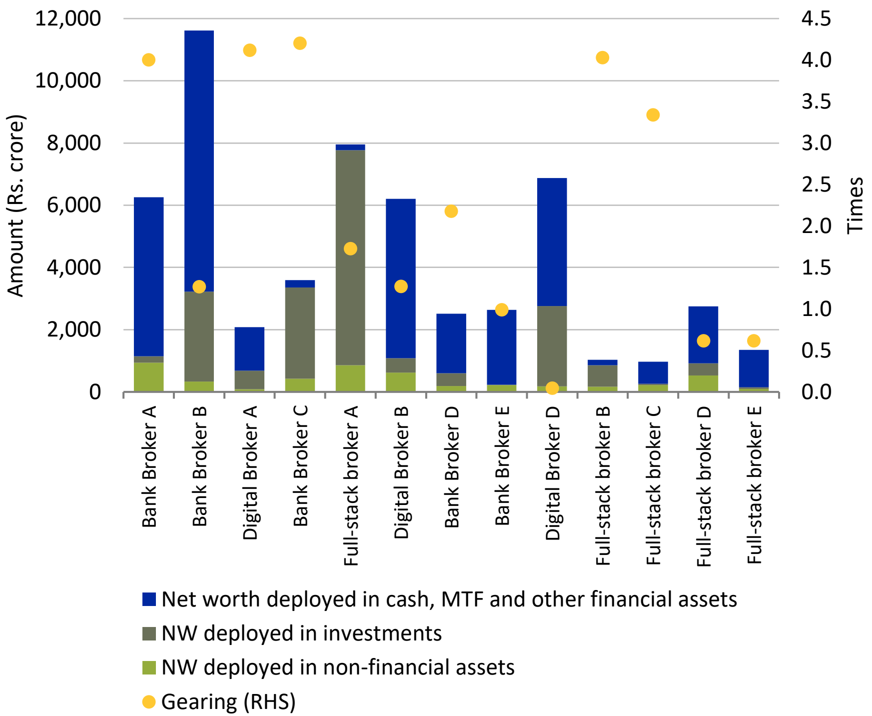
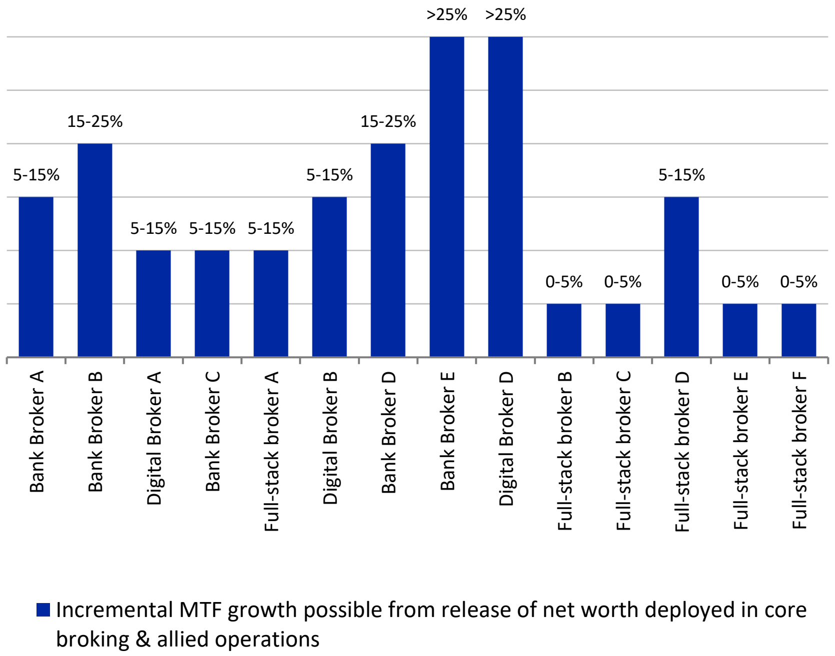


Exhibit: Incremental MTF growth[#] from possible release of net worth deployed in broking operations without factoring any incremental indebtedness

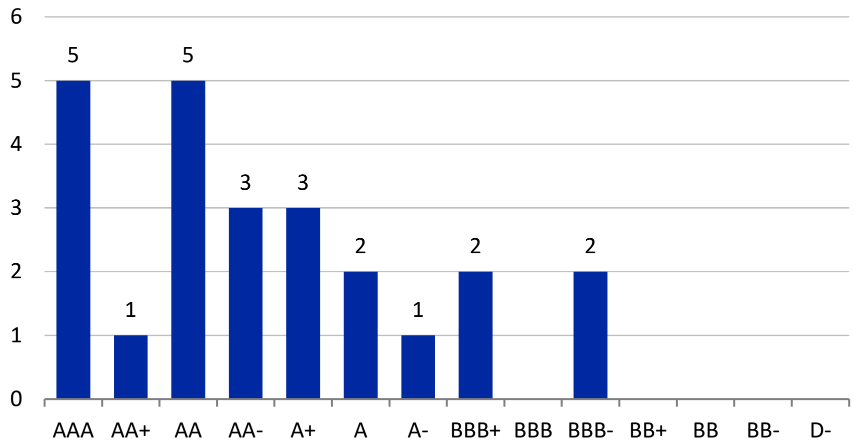


*Source: ICRA Research; Note: Incremental net worth available for MTF has been arrived at as the difference between 50% of net worth (less non-financial assets and 30% of investments) and lower of twice the minimum net worth required for broking operations & other activities; * Estimated as 50% of net worth less non-financial assets and 30% of investments; # does not factor incremental MTF growth possible on account of incremental leveraging or any current buffer available from deployment of less than 50% of Dr. L.C. Gupta Net worth in MTF*

Annexure

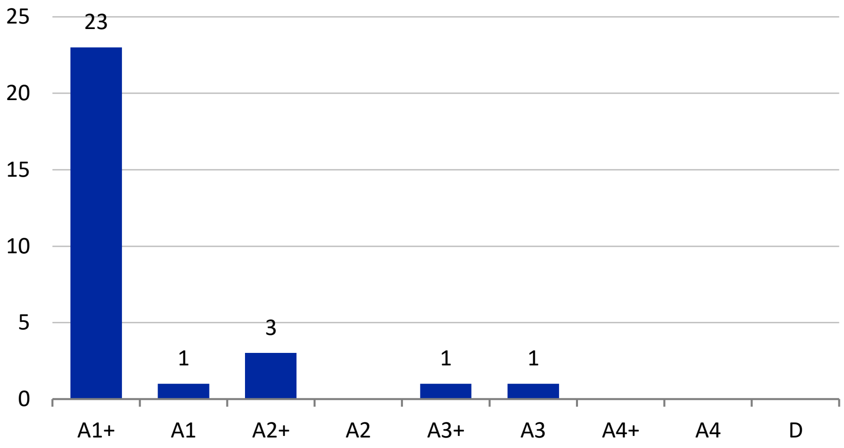
ICRA's coverage of brokerage industry

Exhibit: Distribution of ICRA's long-term ratings for securities brokers^



Source: ICRA Research; ^ As on June 22, 2026

Exhibit: Distribution of ICRA's short-term ratings for securities brokers^



Source: ICRA Research; ^ As on June 22, 2026

- ICRA has ratings outstanding on 32 securities broking companies.
- Of these, long-term ratings are outstanding for 24 companies, while 29 have been rated on the short-term scale.
- The long-term ratings for borrowing programmes of three entities (across two groups) were upgraded in FY2026, supported by sustained scale expansion, strengthening of market position, and/or healthy accrual-led improvement in capitalisation amid supportive industry dynamics.

ICRA-rated securities brokers (1/2)

Exhibit: List of ICRA-rated securities brokers (1/2)

Company name	Long-term (LT) rating	Outlook on LT rating	Short-term (ST) rating
Anand Rathi Share and Stock Brokers Limited	[ICRA]A+	Stable	[ICRA]A1+
Angel One Limited	[ICRA]AA-	Stable	[ICRA]A1+
Axis Securities Limited	[ICRA]AAA	Stable	[ICRA]A1+
Barclays Securities (India) Private Limited			[ICRA]A1+
Cholamandalam Securities Limited	[ICRA]AA	Stable	[ICRA]A1+
Emkay Global Financial Services Limited	[ICRA]BBB+	Positive	[ICRA]A2+
Geojit Investments Limited	[ICRA]A+	Stable	[ICRA]A1+
Globe Capital Market Limited	[ICRA]AA-	Stable	
Groww Invest Tech Private Limited	[ICRA]AA-	Stable	[ICRA]A1+
HDFC Securities Limited	[ICRA]AAA	Stable	[ICRA]A1+
ICICI Securities Limited	[ICRA]AAA	Stable	[ICRA]A1+
IIFL Capital Services Limited			[ICRA]A1+
JM Financial Institutional Securities Limited	[ICRA]AA	Stable	[ICRA]A1+
JM Financial Services Limited	[ICRA]AA	Stable	[ICRA]A1+
Kotak Securities Limited	[ICRA]AAA	Stable	[ICRA]A1+
Master Capital Services Ltd.	[ICRA]A-	Stable	[ICRA]A2+

Source: ICRA Research; ^ As on June 22, 2026

ICRA-rated securities brokers (2/2)

Exhibit: List of ICRA-rated securities brokers^ (2/2)

Company name	Long-term (LT) rating	Outlook on LT rating	Short-term (ST) rating
Mirae Asset Capital Markets (India) Private Limited			[ICRA]A1+
Motilal Oswal Financial Services Limited	[ICRA]AA+	Stable	[ICRA]A1+
Nuvama Wealth Investment Limited	[ICRA]AA	Stable	[ICRA]A1+
Nuvama Wealth Management Limited	[ICRA]AA	Stable	[ICRA]A1+
Pace Stock Broking Services Pvt. Ltd.	[ICRA]A	Stable	
PhillipCapital (India) Private Limited			[ICRA]A1
Prabhudas Lilladher Private Limited	[ICRA]BBB+	Stable	[ICRA]A2+
Pune E-Stock Broking Services Private Limited	[ICRA]BBB-	Stable	
Raise Securities Private Limited	[ICRA]A+	Stable	[ICRA]A1+
SBICAP Securities Limited			[ICRA]A1+
Sharekhan Limited			[ICRA]A1+
SMC Global Securities Limited	[ICRA]A	Stable	[ICRA]A1+
Standard Chartered Securities (India) Limited	[ICRA]AAA	Stable	[ICRA]A1+
Sushil Financial Services Private Limited			[ICRA]A3+
Systematix Shares And Stocks (India) Limited	[ICRA]BBB-	Stable	[ICRA]A3
360 One Distribution Services Limited			[ICRA]A1+

Source: ICRA Research; ^ As on June 22, 2026

A sample balance sheet representation – Gross vs Net MTF Reporting

Net MTF Reporting (Cash collaterals used for MTF pay -in)			
Net worth and Liabilities		**Assets**	
Net worth	100	Own fixed deposits(FDs) encumbered for BGs	50
		Own FDs encumbered on exchanges	25
Borrowings for MTF (for funding)	225	Funded MTF Book (on which interest is earned)	250
Borrowings for MTF (cash collaterals not used in pay-out but rather up streamed)	**0**	**MTF Book (against which client cash collaterals up streamed to exchanges)**	**0**
Client advances for MTF margin	**0**	**Client Funds for MTF margin up streamed with exchanges**	**0**
Client advances for trading margin	400	Client funds up streamed to exchanges	400
Total Liabilities	**725**	**Total assets**	**725**
Gearing	**2.25**		

Gross MTF Reporting (Cash collaterals not used for pay-in)			
Net worth and Liabilities		**Assets**	
Net worth	100	Own FDs encumbered for BGs	50
		Own FDs encumbered on exchanges	25
Borrowings for MTF (for funding)	225	MTF Book (on which interest booked)	250
Borrowings for MTF (cash collaterals not used in pay-out but rather up streamed)	**50**	**MTF Book (against which client cash collaterals up streamed to exchanges)**	**50**
Client advances for MTF margin	**50**	**Client Funds for MTF margin up streamed with exchanges**	**50**
Client advances for trading margin	400	Client funds up streamed to exchanges	400
Total assets	**825**	**Total Liabilities**	**825**
Gearing	**2.75**		

Net MTF reporting is relatively more capital-efficient, particularly in the context of constrained borrowing avenues for brokers. However, it entails higher margin requirements on MTF-eligible scrips, which can marginally constrain client-level leverage. It also limits flexibility to substitute cash margins with non-cash collateral at a later stage, thereby reducing liquidity manoeuvrability. Gross MTF reporting, in contrast, is characterised by relatively lower margin requirements, supporting marginally higher client leverage, and affords greater flexibility in substituting cash margins over time. Nonetheless, it results in elevated reported leverage, which could act as a constraint for entities operating close to regulatory thresholds.

Source: ICRA Research

Click to Provide Feedback

ICRA Analytical Contact Details

Name	Designation	Email	Contact Number
Karthik Srinivasan	Senior Vice-President & Group Head	karthiks@icraindia.com	022 – 6114 3444
Anil Gupta	Senior Vice-President & Co-Group Head	anilg@icraindia.com	0124 – 4545 314
Deep Inder Singh	Vice-President & Sector Head	deep.singh@icraindia.com	0124 – 4545 830
Subhrajyoti Mohapatra	Assistant Vice President	subhrajyoti.mohapatra@icraindia.com	080 – 4332 6406

Business Development/Media Contact Details

Name	Designation	Email	Contact Number
L Shivakumar	Chief Business Officer	shivakumar@icraindia.com	022-61693304
Sai Krishna	Head - Research Sales and Investor Connect	sai.krishna1@icraindia.com	9840774883
Rohit Gupta	Head Business Development – Infrastructure Sector	rohitg@icraindia.com	0124-4545340
Vivek Bhalla	Head Business Development – Financial Sector	vivek.bhalla@icraindia.com	022-61693372
Vinita Baid	Head Business Development – East	vinita.baid@icraindia.com	033-65216801
Shivam Bhatia	Head Business Development – Corporate Sector – North & South	shivam.bhatia@icraindia.com	0124-4545803
Sanket Kulkarni	Head Business Development – Corporate Sector – West	sanket.kulkarni@icraindia.com	022-6169 3365
Naznin Prodhani	Head - Group Corporate Communications & Media Relations	communications@icraindia.com	0124-4545860

ICRA

ICRA

Years of Unwavering Credibility

Thank You!

#35YearsofUnwaveringCredibility