Impact of RBI's Capital Market Exposure Directives on Stockbrokers

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The Reserve Bank of India (RBI), vide its press release dated February 13, 2026, has introduced amendments to the regulatory framework governing commercial banks' capital market exposures. The revised guidelines, which will come into effect from April 1, 2026, provide greater clarity on the conditions under which banks can extend credit facilities to capital market intermediaries (CMIs), including stockbrokers, commodity brokers, proprietary traders and clearing members.

The key provisions impacting the CMIs, specifically, stockbrokers are:

- Banks may extend need-based credit facilities to CMIs to support their day-to-day operational requirements, including general working capital facilities and overdraft or credit lines to address settlement-related timing mismatches.
- All such credit facilities are required to be fully secured with 100% collateral coverage and may be backed by eligible securities or other approved collateral.
- However, banks shall not extend credit to CMIs for proprietary trading or investments. Banks may issue guarantees for proprietary trading by CMIs, provided the facility is fully secured with collateral in the form of cash, cash equivalents, and Government securities, with at least 50% cash collaterals.
- Banks may issue intra-day credit limits to CMIs to address temporary funding gaps arising from settlement timing differences in trades executed on behalf of clients. Such facilities must be supported by a minimum collateral coverage of 50%.
- Banks may issue guarantees on behalf of brokers or professional clearing members in favour of stock exchanges or clearing houses. These guarantees must be supported by at least 50% collateral, with a minimum of 25% in cash.
- Banks may extend financing to brokers for margin trading facilities (MTF) offered to their clients. Such facilities are required to be fully secured by collateral in the form of cash, cash equivalents, and Government securities, with a minimum of 50% of the collateral maintained in cash.
- The central bank has clarified that existing sanctioned facilities will continue until their maturity. Meanwhile, the revised norms will only apply to new sanctions, allowing a transition period for market participants to adjust their funding structures.

These regulations are expected to impact stockbrokers to varying degrees, depending on factors such as their client base, business model, and credit profile.

Sr. No	Type of broker	Impact
1.	Proprietary Traders	Proprietary trading firms that rely significantly on bank credit lines, especially intra-day facilities, will need to secure additional funding following the implementation of the proposed amendments. This will lead to higher funding costs and could reduce trading volumes, putting pressure on their revenue and profits. In some cases, firms may also have to modify their business models to comply with the new regulatory framework. Among proprietary traders,

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		domestic entities are likely to be more affected than well-capitalised foreign proprietary trading firms, which generally maintain stronger balance sheets.
2.	Institutional brokers	The directives are expected to impact institutional brokers who rely on intra-day bank facilities to meet margin requirements for execution of trades during the trading day until settlements are completed through custodians. With restrictions on the use of such facilities for margin requirements, brokers may need to deploy additional capital to bridge funding gaps, potentially increasing their funding costs.
3.	Mid and small brokers	Existing BG facilities typically carried lower cash margin requirements for these types of brokers, and historically, many such brokers have relied on immovable properties and other securities as collateral. Following the implementation of the directives, these entities may be required to infuse additional capital or increase cash collateral, thereby increasing funding costs. Additionally, access to incremental bank funding may become relatively difficult for such brokers due to tighter collateral norms.
4.	Bank-based, discount brokers and traditional brokers	The incremental financing cost impact on large brokerage houses and bank-based brokers is expected to be limited, as most already operate with conservative collateral structures and maintain cash or cash-equivalent collateral in line with the new directions. Bank-based brokers also benefit from strong financial support and funding flexibility from their parent institutions.
5.	Professional clearing members	Professional clearing members have so far benefited from relatively lower collateral requirements for their existing BG limits. Following the implementation of the new directives, these entities may need to infuse additional capital or provide higher cash collateral, which could increase funding costs.

Financing to brokers for MTF

Additionally, the central bank has allowed banks to finance MTF, creating an additional funding avenue for stockbrokers and diversifying their resource profile, which currently relies largely on commercial papers or borrowings from NBFCs. In NBFC funding, exposures are typically secured by hypothecation of MTF receivables, with collateral coverage of 1.20–1.25 times, without requiring additional capital beyond the SEBI-prescribed norms. However, bank funding for MTF requires brokers to maintain a higher level of cash collateral, potentially increasing their capital commitment. That said, the immediate impact may be limited, as banks have not traditionally been the providers of MTF funding. Going forward, the extent of bank participation in this segment will depend on factors such as risk-adjusted pricing and the product structures they offer.

Conclusion

Overall, CareEdge Ratings expects the amendments to have varying impacts on market participants. The effects are likely to be twofold: firstly, an increase in funding costs; and secondly, a potential decline in revenue and profitability due to lower turnover. Proprietary trading firms and mid-sized or smaller brokerage entities are expected to be the most affected, followed by institutional brokers, due to higher capital requirements, increased funding costs, and the possibility of reduced trading volumes. The stricter collateral norms may also lead to consolidation within the brokerage industry, as smaller players may struggle to scale operations under the new funding environment. Conversely, large retail-focused brokers, including bank-based and traditional brokerage firms, are expected to experience limited impact, as their existing structures are largely aligned with the new guidelines and they tend to possess stronger capital buffers and fundraising capabilities.

Furthermore, potential moderation in proprietary trading volumes, combined with prevailing global macroeconomic and geopolitical uncertainties and increased transaction costs, may result in a near-term liquidity compression. This could have a wider impact on trading activity, overall market participation, and the earnings profile of stockbrokers.

At a broader level, the amendments are expected to strengthen risk management practices concerning banks' exposure to capital markets and to improve overall financial stability. However, in the short term, the regulations might prompt a recalibration of funding structures, a moderation in leverage-driven trading activity, and a gradual shift towards more robust balance sheets and capital-backed business models among market intermediaries.

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