Margin Trading

بورصة النيل
NILEX

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EGX
The Egyptian Exchange
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Margin Trading Definition

Margin trading is an agreement in which the brokerage firm based on a clear instruction from the client will finance part of the value of securities bought in the clients' name.

Margin is used to increase the purchasing power so that the investor can buy more stocks (or other securities) without fully paying for them, meanwhile margin trading exposes investors to potential losses when the price of the securities bought on margin go down and at the same time, it is more profitable to investors when the prices pick up.

Brokerage firms eligible for margin can finance (50%) from the value of the securities bought in the name of the client and (80%) from the value of the government bond.

Securities Eligible for Margin Trading

It is not allowed to buy and sell on margin except on the securities that fulfills the requirements set by the EGX and approved by the FRA, thereafter, EGX shall announce on its website the list of securities permitted to be traded according to this activity.

List of securities that meet the previously mentioned criteria are divided into two categories:

Category (A) list: can be traded on margin and same day trading and the brokerage firm can accept it as a collateral up to 100% of it's market value.

Category (B) list: can be traded on margin and the brokerage firm can accept it as a collateral up to 80% of it's market value.

Margin Trading Procedures

1. Choose a brokerage firm eligible for this specialized activity.
2. Sign the margin contract with the selected brokerage firm.
3. Deposit in advance a cash amount that represents not less than (50%) of the value of the securities bought and not less than (20%) of the government bond.
4. Client wishing to trade on margin shall provide the brokerage firm with one or more of the following collaterals:
   - Unconditional bank guarantee letter issued by banks and branches of forging banks that are under the supervision of the central bank.
   - Deposits in banks that are under the supervision of the central bank, as long as it is re-

served for the brokerage firm or custodian, thus, it can be transferred without requiring the client's approval and its assessed value is up to 90% of the deposit amount.

The Client can also provide the brokerage firm or custodian with the following collaterals whose market value is not less than 100% of the total value of the securities purchased for the clients' account on the purchase date:

1. Government bonds reserved for the brokerage firm or custodian and its assessed value is up to 100% of its market value.
2. Securities that meet the criteria for margin trading set by the EGX and approved by the FRA and acceptable to the brokerage firm or custodian and their assessed value is up to 100% or 80% of their market value as determined by the company.

Brokerage firm or custodian shall take measures to sell securities and liquefy collaterals presented by a client to bring the percentage of his indebtedness to 50% for securities and 80% for government bonds in the following cases:

1. The client doesn't reduce his indebtedness below the percentage mentioned above within 2 days after the notification date or does not submit additional collaterals.
2. If his indebtedness reaches, 70% of the securities market value and 90% of the Government bonds market value.

Brokerage Firms' Obligations

1. It is not permitted to buy or sell on margin except on the securities that meet the criteria set by the EGX and approved by the FRA.
2. Brokerage firm shall exert due diligence to ensure that clients are capable of meeting obligations resulting from margin trading in view of their financial position, investment goals and other information, it should also assure itself of the financing sources available for its clients who exercise such activity.
3. Brokerage firm is committed to provide the client with a clear description, rules, procedures, benefits and risk of trading on margin.
4. Maintain independent books and records on the securities traded on margin.
5. Brokerage firm shall at the end of each business day mark - to - market the securities purchased on margin and if the indebtedness of a client exceeded 60% of the securities close price market value disclosed by the EGX, the brokerage firm is obligated to notify him to reduce his debt either by cash payment or by presenting extra collaterals, thus if the indebtedness ratio reached 85% of the government bonds.
6. Indebtedness due to the client should not exceed 15% of the money allocated for margin trading and, 20% for a client and group of related clients'.

The related group means each group of clients that are liable to the actual control of the same natural persons or the same juridical persons.

7. Concentration percentage on the one security should not exceed 75% from the maximum amount available in the client's portfolio on the purchased date.
8. Brokerage firm or custodian shall inform its clients in the event of amending the previously mentioned list of securities that meet the criteria for margin trading or the collateral percentage of any security through the following:

a. Notify them with the amended list.
b. Give them time to replace the securities accepted as collateral and been removed from the list with other securities within 2 months or submitting additional collaterals.

Investor's Obligations

The client shall pay in cash a percentage not less than 50% of the purchased securities price and not less than 20% for the government bonds.

If the indebtedness has exceed 60%, the client should reduce this excess to 50% within 2 days from notification date through cash payment or submitting one of the following additional collaterals:

1. Unconditional bank guarantee letter issued by banks and branches of foreign banks that are under the supervision of the central bank.
2. Deposits in banks that are under the supervision of the central bank, as long as it is reserved for the brokerage firm or custodian, and can be transferred without requiring the client's approval and its assessed value is up to 90% of the deposit amount.
3. The Client can also provide the brokerage firm or custodian with the following collaterals whose market value is not less than 100% of the total value of the securities purchased for the clients' account on the purchase date:
   - Government bonds reserved for the brokerage firm or custodian and its assessed value is up to 100% of its market value.
   - Securities acceptable to the brokerage firm or custodian.

Margin Trading Risk

1. Investors cannot only lose their initial investment but may lose more.
2. Investors must be ready to deposit additional cash or securities in their accounts on a short notice to cover market losses.

3. Brokerage firms may sell some or all the investors' securities without consulting them in order to pay off the margin loan made to them, if margin calls are not satisfactorily met.
4. Investors must take into consideration that brokerage firm will charge them interest for borrowing money.

Example of The Margin Trading Process

Assume an investor wish to buy securities on margin with 100,000, in this case this investor shall pay 50% of the price of securities purchased (50,000) and his indebtedness to the brokerage firm or custodian after paying in advance 50% of the price of securities purchased is 50,000 (rest of the securities price purchased on margin).

The brokerage firm or custodian shall mark- to- market the securities purchased in the margin account at the end of each business day as per the market value of its close price disclosed by the EGX.

Assume at a later time the market value of the purchased securities on margin decreased from 100,000LE to 70,000LE given that the indebtedness of the investor is still 50,000LE, therefore, the debt ratio to the market value of the accepted securities is 71%, in this case the brokerage firm or custodian shall notify the investor to reduce this ratio to 50% ,
This investor can reduce the mentioned excess by any of the following:

1. Pay 15000LE in cash.
2. Provide a bank guarantee by 15000LE.
3. Provide government bonds by 15000LE.
4. Provide bank deposit by 16,667LE (assessed by 90% (15000LE)).

Consequently, the indebtedness of this investor will be decreased from 50,000 to 35,000 to the market value of the accepted securities, which is 70,000 hence; the ratio of indebtedness to the market value of the accepted securities will be decreased to 50%.

5. Provide additional collaterals accepted to the brokerage firm or custodian where its' accepted market value is not less than 30,000LE (assessed by 100% or 80% as per the specialized activities list and acceptable), therefore the market value of the securities accepted as collateral and provided by the investor will be 100,000LE, hence, the ratio of indebtedness to the market value of the accepted securities will be decreased to 50%.

In case the client does not comply with the previously mentioned and decreased his indebtedness (within 2 working days from the notification date and the indebtedness ratio exceeded 60% or if the indebtedness ratio of the investor reaches 70% of the market value of the accepted collaterals provided by the investor) the brokerage firm or custodian shall take the necessary action to sell the securities purchased on margin or liquefy the presented collaterals of the investor by 30,000 and then the indebtedness ratio to the market value of accepted securities will be reduced by 50%.

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