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Insight

# When markets shake, the banks call: how to respond to margin calls


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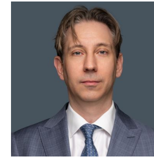

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The recent U.S. tariff announcements have caused turmoil on international markets. In a replay of the Covid market shakedown, banks have already issued margin calls to cover alleged shortfalls following recalculation of investor portfolios – and may well do so again.

Here is what investors need to know to preserve their rights.

**(1) Margin call – what is about to happen?**

By issuing a margin call, the bank requests the investor to provide further assets (as collateral) or take other measures to reduce an alleged exposure towards the bank. The bank's right to issue such a margin call is typically stipulated in (framework) credit facility agreements – namely Lombard loans, which are granted against a pledge of marketable assets.

The bank often requests a specific amount of additional margin without further explanation, making it difficult (if not impossible) for the investor to assess whether the margin call – and the amount – is justified.

The deadline to meet the margin call is typically 24-48 hours. If the investor fails to meet this deadline – and if the bank has followed the strict contractual mechanism in margin call situations (e.g. by first giving the investor the opportunity to provide additional collateral) – the bank then has the right to liquidate the portfolio (or parts thereof) and use the proceeds to settle its claims against the investor.

**(2) How to respond to a margin call to preserve all rights**

After the bank has issued a margin call, the investor is, in principle, faced with two unsatisfactory options: either to provide the requested additional margin (for example additional cash funds); or let the bank liquidate part or all of the investor's portfolio.

However, meeting a margin call does not preclude an investor from claiming damages afterwards (as confirmed by the Swiss Federal Supreme Court).

While the bank has a certain discretion when issuing a margin call (namely regarding the calculation of the margin requirement and the loan to value applied to the collateral), this discretion is not unlimited (principle of good faith and prohibition of abuse of rights). To safeguard their rights, investors should:

- Challenge the margin call before paying, or before agreeing to liquidate certain assets in the portfolio. Do this in writing, or – in the case of an oral challenge (i.e. over the phone) – confirm in writing in an email that references the time and content of any phone calls.
- Request a detailed explanation of the bank's margin calculations and follow up on any specific points based on the bank's feedback regarding the valuation method of any specific asset that serves as collateral (e.g. structured products).

- Communicate with the bank in writing, or follow up in writing if the communication took place orally (i.e. over the phone), especially regarding any instructions by the client to realise assets or close open positions.
- Refrain from any communication or behaviour that could be seen as a confirmation or ratification, since this could lead to the forfeiture of certain rights related to forced liquidation or its timing (which can be decisive in the event of significant market turbulence).
- Assess potential claims against the bank in connection with the margin call, the products whose value has dropped (e.g. structured products), and/or the quality of the financial services provided (e.g. advice to purchase a certain product and the various risks associated with it).

Alternatively, or in parallel, the investor may seek to obtain *ex parte* interim relief from the court, prohibiting the bank from liquidating certain assets (in particular, in case the bank threatens to realise a strategic shareholding, which is pledged as collateral).