

National Stock Exchange Of India Limited**Department: CAPITAL MARKET SEGMENT**

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All Members,

Liquidity Enhancement Scheme (LES) for Government of India Securities in Capital Market Segment

NSE introduced trading in government securities in the capital market segment of NSE from December 17, 2018. In order to encourage wider participation in Government of India securities in capital market segment, it is proposed to introduce a Liquidity Enhancement Scheme (LES).

The details of the LES are as follows:

- The LES shall be effective from December 01, 2019 till May 31, 2020.
- The LES will be applicable to Government Securities listed in the capital market segment of the Exchange. The list of securities eligible for LES is provided as **Annexure 1**.
- Eligible trading members of capital market segment willing to do market making will need to register as Market Maker with the Exchange by submitting a one-time undertaking to the exchange as per **Annexure 2**. The Exchange will intimate trading member about its registration status within 2 working days.
- Every month, the Exchange will invite the registered market makers (registered till 20th of the month) to physically submit the "Application form for submission of quotation" as per **Annexure 3** in a sealed envelope to the Exchange. All the quotations received will be opened in front of the eligible applicants at the Exchange.
- The market maker should also provide details of the terminal and the user ids to be used for market making in Annexure 3. The user id provided should not be the corporate manager id and should be pro enabled. Market maker can enter only limit orders using the user ID under LES.
- The selection of market maker will be based on two parameters –
 - Bid ask spread
 - The incentive for providing two-way quote
- Exchange will select the market makers for a security based on the best quotation. In case of similar quotations, the market maker will be selected by lottery system.
- There will not be more than 2 market makers for a security at any point of time.
- The market maker may compete with other market makers for better quotes to the investors.
- Trading in LES would be anonymous except for market maker quotes or transactions which would be identified distinctly with # in MBP (Market by Price) in Trader work station (TWS).
- Market Maker has to fulfil certain obligations to retain its qualification as Market Maker after registration with Exchange.
 - Two-way quotes in selected securities to be within top 5 bid-ask
 - Bid-ask spread of not more than 50 paisa
 - Minimum quantity of 1000 bonds on both the side
 - Availability of two-way quote at least 75% during the day
 - For this purpose, day will be from 9:15 am to 3:30 pm
 - The market maker should fulfil above condition at least 50% of the trading days in a month.

- Market Making activity will start and be observed for obligation fulfilment from the 1st working day of the month to the last working day of the month.
- While the performance against the above obligations shall be monitored on daily basis, the incentives shall be paid on a monthly basis.
- Transaction charges on Government Securities trading in Capital Market Segment will be waived for all trading members.
- The market maker will be given incentive upto Rs. 50,000/- per month per security for providing two-way quote, provided it fulfils all the obligations of the market making specified by the Exchange from time to time.
- Further, qualified market maker will be incentivized based on the counter party with which the trade got executed. The incentives are as follows:

Rebate Side 1	Side 1	Side 2	Rebate Side 2
Zero	Non Market Maker	Non Market Maker	Zero
Zero	Non Market Maker	Market Maker	Rs. 1000 per crore
Rs. 1000 per crore	Market Maker	Non Market Maker	Zero
Rs. 500 per crore	Market Maker	Market Maker	Rs. 500 per crore

- The incentives would be computed and settled on monthly basis excluding all taxes.
- The market maker will be incentivised for trading based on the relevant counter party up to Rs. 5 lacs per month and in the event of the incentive exceeding Rs. 5 lacs for the month, the incentive would be provided on pro-rata basis.
- In order to maintain market integrity, no incentives shall be provided on trades with same counterparties i.e., same Unique client code (UCC) on both sides.
- Non-fulfilment of quoting obligations in a particular month would lead to non-payment of any incentive for the registered market makers in that month.
- Market maker will be disqualified in case it fails to fulfil its obligation for any of the 3 months during the period of market making.
- Market Maker has to provide a minimum notice of **one month** to the Exchange to discontinue from the Market Making scheme. Format of the application letter is attached as **Annexure 4**.
- Exchange will provide reports to market maker to monitor its obligation and details of incentive. The details of the same will be provided subsequently.

The Exchange shall monitor the performance of the scheme and reserves the right to amend/ discontinue the same at any time with an advance notice of 15 days.

Kindly refer to the following Annexures attached:

Annexure 1 : Details of government securities with applicable LES scheme available for trading.

Annexure 2 : Format for Undertaking for Registration of Market Maker for the scheme.

Annexure 3 : Format for Application form for submission of quotation.

Annexure 4: Format for Application form for Discontinuation as a Market Maker for the scheme.

For any queries / clarification related to any aspect of this LES, members may please get in touch with:

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**For and on behalf of
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**Khushal Shah
Associate Vice President**

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