National Stock Exchange Of India Limited

Department : Commodity Derivatives Segment	
Download Ref No: NSE/COM/44457	Date : May 22, 2020
Circular Ref. No: 16/2020	

All Members,

Liquidity Enhancement Scheme – Gold Mini Options

In terms of provisions of the Rules, Bye-Laws and Business Rules of the Exchange, the Members of the Exchange are notified as under:

SEBI vide its circular SEBI/HO/CDMRD/DMP/CIR/P/2018/55 dated March 26, 2018 permitted introduction of Liquidity Enhancement Scheme (LES) in the commodity derivative contracts.

NSE vide its circular NSE/COM/44441 dated May 21,2020 has announced introduction of options in goods contracts on underlying gold and NSE is now pleased to introduce LES in Gold Mini Options with effect from June 8, 2020 to encourage active participation in trading and market development.

The salient features of the Liquidity Enhancement Scheme (LES) has been consolidated in this Circular.

Selection of Market Makers (MM)

Trading members who are interested in providing continuous quotes as Market Makers shall be required to register with the Exchange. Members registered as Market Makers shall be required to fulfill order level obligations as specified in this circular.

The eligibility criteria for Market Makers are as given below:

- Net worth of ₹ 1 Cr
- No serious disciplinary action against the member in the last year.

The exchange will appoint one designated MM for the Gold Mini Options based on a competitive bidding procedure. The successful bidder shall be appointed as designated MM till the scheme for the product remains in force.

The interested applicants can submit their bids in the format specified (as per Annexure 1) on or before 27th May,2020 to become eligible for being appointed as designated MM. Based on the bids received, NSE would perform the evaluation of bids as per the grading scale given in Annexure 2.

Minimum Quote Obligations

The designated MM shall provide 2-way continuous quotes in both Calls and Puts on all trading days as per the stated obligations in 2 ITM contracts (ITM 1 and ITM2), ATM and 4 OTM contracts (OTM1, OTM2, OTM3, OTM4) of front month on all the time slots (prescribed below) and also in the next month contracts during the last 3 days of expiry of the front month contracts.

The quote obligations and their base requirements in terms of minimum lots and maximum spreads are provided below –

Table 1: Base Minimum Lots Requirements

Level	Minimum lots (Bid & Ask Sides separately)		Required presence as % to trading hours
	*All Eligible Strikes		Monthly Presence Requirement
Top line	5	5	85%
Second & Third (each level)	20	20	
Performance of MM for the 85 % requirement would be measured on a monthly basis			
* For a trading day, the At-the-money option strike shall be determined based on the closing value of underlying Gold Mini Futures on the previous trading day.			

Table 2: Base Maximum Spread Requirements

Premium Range (in Rs.) (Bid based)	Maximum Bid-Ask Spread (in Ticks)		
	Top line	Second level	Third level
Upto 50	7	9	11
50.50 – 150	9	11	13
> 150.50	11	13	15

The exchange reserves the right to terminate the services of the MM in case of non-fulfillment of their quote obligations or for any other actions that are detrimental to the development of the market.

Additional Points for Designated Market Maker

- Obligation fulfilment of the MM shall be as per their bids submitted and no change shall be entertained
- Presence will be calculated on a daily basis from 9.15 am to 11.00 pm
- Presence measurement will be on a monthly basis on an average basis across all 14 strikes which the MM is stated to quote
- No Incentive to be paid for monthly presence of less than 70%
- However, for presence between:
  - 80 to 85%: 10% will be deducted from the overall incentive amount
  - 75 to 80%: 25% will be deducted from the overall incentive amount
  - 70 to 75%: 35% will be deducted from the overall incentive amount
- Topline would be given an 90% weightage, 5% to second line, 5% third line
- The MM shall also quote on a best effort basis on all strikes outside the stated requirement if there is a reasonable open interest in those strikes

The above scheme shall be operational from June 8th, 2020 and shall remain in force for 6 months from the date of launch. The Exchange reserves the right to amend / discontinue the scheme at any time with an advance notice of 15 days.

Quoting Incentive

The designated MM shall be eligible for a monthly incentive of Rs.40,00,000 (Forty Lakhs only) subject to all quoting conditions being met. The designated MM shall have an option to quote for more than 85% and for every additional % presence over 85%, MM would be paid additional Rs.2 lakhs subject to a maximum of 10 lakhs per month.

For further information on the above scheme, please contact NSE Commodities team at 'nsecommodities@nse.co.in'.

For and on behalf of
National Stock Exchange of India Limited

Designated Officer
Commodity Derivative Department

Annexure I

Application Format for Market Making

(To be printed on the official letter head of the applicant)

To
Designated Officer
Commodity Derivative Department
National Stock Exchange of India

<u>Registration as Designated Market Maker (MM) for Gold Mini Options</u>

Dear Sir / Madam,

- We M/s_______(Member Name / Clearing Number) having its registered office at _______would like to get registered as a designated Market Maker (MM) of the National Stock Exchange of India Limited for the **Gold Mini Options**.
- We are aware that the successful bidders from an objective criterion based bidding process shall be appointed as designated MM.
- We understand that the Exchange reserves the right to amend / discontinue the scheme or expand condition(s) laid down in their circular at its discretion in accordance with SEBI circular dated April 23, 2014.
- We understand that the Exchange reserves the right to terminate the services of the designated Market Maker in case of non-fulfillment of their quote obligations or for any other actions that are detrimental to the development of the market. This would lead to withholding of any adjustments against incentive accruals and lead to legal proceedings.
- We agree to comply with the terms and conditions as specified in this circular regarding the LES and as may be amended by the Exchange from time to time.
- We have enclosed our bids below:

<table>
<tr><th>S. No.</th><th>Obligations</th><th colspan="2">Member Commitments</th></tr>
<tr><td>1</td><td>Minimum Quoted Lots at Top line (Bid – Ask)</td><td colspan="2"><table><tr><th>BID</th><th>Ask</th></tr><tr><td></td><td></td></tr></table></td></tr>
<tr><td rowspan="4">2</td><td rowspan="4">Maximum Bid / Ask spread at Topline</td><td>Premium Range (in Rs.) *</td><td>Maximum Bid / Ask Spread (in Ticks)</td></tr>
<tr><td>Upto 50</td><td></td></tr>
<tr><td>50.50-150</td><td></td></tr>
<tr><td>>150.50</td><td></td></tr>
</table>

The details of the contact person from our organization is as given below – Name:______ _______Designation:__________ Mobile:_______Phone:________Email:

For << Organisation Name>>

(Signature of Authorised Signatory & Stamp)
Name:
Designation:
Date:
Location:

Notes:

- Members are requested to send their bids in email to Ms. Meghana at mmukadam@nse.co.in
- If the bids are incomplete, Exchange shall reject the application
- Bids shall be evaluated as per the Selection Criteria specified in **Annexure II**
- Applicant with the highest scores in the evaluation shall be appointed as the designated MM.
- If the highest bid as per the evaluation is a tie, the participants shall be given half an hour time to resubmit their revised bids on the same day and the appointment is made based on their scoring in the revised bid submissions.
- In the event of tie again, the designated MM shall be selected by a draw of lots between the applicants whose scores have tied

Annexure II
Evaluation Criteria

Scoring Model for the Purpose of Selection of MM

Topline quantity for all eligible strikes

	Buy / Sell lots each	Points
Scenario 1	5	5
Scenario 2	10	10
Scenario 3	15	15
Scenario 4	20	20
Scenario 5	25	25
Scenario 6	30	30

Topline Bid – Ask spread for all eligible strikes

Premium	Bid-Ask (in ticks)	Points
Upto 50	7	10
50.50-150	9	10
>150.50	11	10

Premium	Bid-Ask (in ticks)	Points
Upto 50	6	20
50.50-150	8	20
>150.50	10	20

Premium	Bid-Ask (in ticks)	Points
Upto 50	5	30
50.50-150	7	30
>150.50	9	30