National Stock Exchange Of India Limited

Department : Commodity Derivatives Segment	
Download Ref No: NSE/COM/46355	Date : November 13, 2020
Circular Ref. No: 41/2020	

All Members,

Liquidity Enhancement Scheme – CDSO Futures

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/46294 dated November 06,2020 has announced introduction of Futures contracts on Crude Degummed Soyabean Oil (CDSO) and NSE is now pleased to introduce LES in CDSO Futures with effect from December 1, 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 / Clients of 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 Primary MM for Near and Next Month, Secondary MM for Near and Next Month for the CDSO Futures based on a competitive bidding procedure. The successful bidders shall be appointed as Primary/Secondary 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 18th November,2020 (1700 hrs) to become eligible for being appointed as Primary/Secondary MM. Based on the bids received, NSE would perform the evaluation of bids as per the grading scale given in Annexure 2.

<u>Minimum Quote Obligations</u>

The designated MM shall provide 2-way continuous quotes in Futures on all trading days of front

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month (if applying or near month) or next month (If applying for next month) on all the time slots (prescribed below).

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

Table 1: Base Minimum Requirement

Primary Market Maker - Near Month			
	Lots		
	Buy	Sell	Bid ask
Top Line	2	2	4 ticks
2nd Line	2	2	Top line + 1 tick (both sides)
3rd Line	2	2	Top line + 2 ticks (both sides)
4th Line	2	2	Top line + 3 ticks (both sides)
5th Line	4	4	Top line + 4 ticks (both sides)

Secondary Market Maker - Near Month			
	Lots		
Buy	Buy	Sell	Bid ask
Top Line	2	2	5 ticks
2nd Line	2	2	Top line + 1 tick (both sides)
3rd Line	2	2	Top line + 2 ticks (both sides)
4th Line	2	2	Top line + 3 ticks (both sides)
5th Line	4	4	Top line + 4 ticks (both sides)

Primary Market Maker – Next Month			
	Lots		
Buy	Buy	Sell	Bid ask
Top Line	1	1	5 ticks
2nd Line	2	2	Top line + 1 tick (both sides)

3rd Line	2	2	Top line + 2 ticks (both sides)
4th Line	2	2	Top line + 3 ticks (both sides)
5th Line	4	4	Top line + 4 ticks (both sides)

Secondary Market Maker – Next Month			
	Lots		
Buy	Buy	Sell	Bid ask
Top Line	1	1	6 ticks
2nd Line	2	2	Top line + 1 tick (both sides)
3rd Line	2	2	Top line + 2 ticks (both sides)
4th Line	2	2	Top line + 3 ticks (both sides)
5th Line	4	4	Top line + 4 ticks (both sides)

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.

Base Spread Requirement for Rollover Period

Roll over period is defined as expiry – 3 days (inclusive of expiry day). The quoting obligations are different for the roll over period.

- Expiry -2 days: Bid-ask requirement not exceeding 8 ticks
- Expiry -1 day: Bid-ask requirement not exceeding 15 ticks
- Expiry day: Bid-ask requirement not exceeding 20 ticks
- There shall be no change to the top line quantity during the roll over period
- The number of lots required to be quoted from 2nd to 5th line during the roll over period shall be 1 lot on both sides
- This shall be applicable for both Primary and Secondary MM.

<u>Additional Points for Designated Market Maker</u>

- 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 9.00 am to 9.00 pm
- Presence measurement will be on a monthly basis and payment shall be made on a monthly basis
- 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 85% weightage, 5% weightage each from second & third line and 5% combined weightage for fourth and fifth line

Quoting Incentive

Month	Primary /Secondary	Monthly Incentive (capped)
Near Month	Primary	Rs. 33 lacs
	Secondary	Rs. 27 lacs
Next Month	Primary	Rs. 16.5 lacs
	Secondary	Rs. 13.5 lacs

If more than 1 applications are received for registration either for Primary / Secondary MM, then the selection shall be based on a grading mechanism. However, if we have more than 1 participant who has applied for Primary MM with all parameters being same, then we would treat them as Primary and will not proceed to appoint secondary MMs. The incentive pool will be the aggregate of Primary and Secondary pool.

The above scheme shall be operational from December 1st, 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.

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 Derivatives 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 CDSO Futures</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 CDSO Futures.
- 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>Member Commitments</th></tr>
<tr><td>1</td><td>Minimum Quoted Lots at Top line:
(Bid – Ask)
Near Month
Primary / Secondary
(Strike whichever is not applicable)</td><td><table><tr><th>Bid</th><th>Ask</th></tr><tr><td></td><td></td></tr></table></td></tr>
<tr><td>1a</td><td>Maximum Bid / Ask spread at Topline:
Near Month
Primary / Secondary
(Strike whichever is not applicable)</td><td><table><tr><th>Spread</th><th>Top line in ticks</th></tr><tr><td></td><td></td></tr></table></td></tr>
<tr><td>2</td><td>Minimum Quoted Lots at Top line:
(Bid – Ask)
Next Month
Primary / Secondary
(Strike whichever is not applicable)</td><td><table><tr><th>Bid</th><th>Ask</th></tr><tr><td></td><td></td></tr></table></td></tr>
<tr><td>2a</td><td>Maximum Bid / Ask spread at Topline:
Next Month
Primary / Secondary
(Strike whichever is not applicable)</td><td><table><tr><th>Spread</th><th>Top line in ticks</th></tr><tr><td></td><td></td></tr></table></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:

<u>Notes:</u>

- Members are requested to send their bids in email to Mr. Eshank at Eshanks@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 Market Makers (Primary / Secondary)
- If more than 1 applications are received for registration either for Primary / Secondary MM, then the selection shall be based on a grading mechanism.
    - If we have more than 1 participant who has applied for Primary MM with all parameters being same, then we would treat them as Primary and will not proceed to appoint secondary MMs
    - If we have more than 1 participant who has applied for Secondary MM with all parameters being same and with only one valid Primary MM bid, then we would request the MMs to re-submit their bids for Secondary MM.
        - 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

Primary MM

Topline quantity for Near Month

	Buy / Sell lots each	Points
Scenario 1 (Minimum)	2	5
Scenario 2	3	10
Scenario 3	4	15

Topline quantity for Next Month

	Buy / Sell lots each	Points
Scenario 1 (Minimum)	1	5
Scenario 2	2	10
Scenario 3	3	15

Topline Bid – Ask spread for Near & Next Month

	Near Month		Next Month	
	Bid-Ask Ticks	Points	Bid-Ask Ticks	Points
Scenario 1	4	10	5	10
Scenario 2	3	20	4	20
Scenario 3	2	30	3	30
Scenario 4	1	40	2	40

Secondary MM

Topline quantity for Near Month

	Buy / Sell lots each	Points
Scenario 1 (Minimum)	2	5
Scenario 2	3	10
Scenario 3	4	15

Topline quantity for Next Month

	Buy / Sell lots each	Points
Scenario 1 (Minimum)	1	5
Scenario 2	2	10
Scenario 3	3	15

<u>Topline Bid – Ask spread for Near & Next Month</u>

	Near Month		Next Month	
	Bid-Ask Ticks	Points	Bid-Ask Ticks	Points
Scenario 1	5	10	6	10
Scenario 2	4	20	5	20
Scenario 3	3	30	4	30
Scenario 4	2	40	3	40