

National Stock Exchange of India Limited

Circular

Department: COMMODITY DERIVATIVES	
Download Ref No: NSE/COM/59196	Date: November 01, 2023
Circular Ref. No: 78/2023	

All Members,

Liquidity Enhancement Scheme – Silver Options (Option in Goods)

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/45445 dated August 21, 2020 has announced introduction of option in goods contracts on underlying Silver and NSE is now pleased to introduce LES in Silver Options with effect from November 27th, 2023, to encourage active participation in trading and market development.

The salient features of the Liquidity Enhancement Scheme (LES) have 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 three market makers (MM1, MM2 and MM3) for the Silver (30 kgs) Option in Goods contract based on a competitive bidding procedure. The successful bidder shall be appointed as MM till the scheme for the product remains in force. The interested applicants can submit their bids in the format specified (as per Annexure I) on or before 16th November 2023 to become eligible for being appointed as the designated market makers. Based on the bids received, NSE would perform the evaluation of bids as per the grading scale given in Annexure II

A trading member may apply to be a designated market maker only under one category i.e., either Market maker 1 or Market maker 2 or Market maker 3.

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Minimum Quote Obligations

All the designated market makers shall provide 2-way continuous quotes in both Calls and Puts on all trading days as per the stated obligations as under:

- a. Obligation of Market Maker 1
 - Strikes to be quoted: 2 In the money (ITM), 1 At the money (ATM) and 4 Out of Money (OTM) strikes with a difference of 500 in front month contract.
- b. Obligation of Market Maker 2
 - Strikes to be quoted: 5 OTM strike prices with a difference of 500 in front month contract (Beyond the strikes quoted by MM1)
- c. Obligation of Market Maker 3
 - Strikes to be quoted: 2 OTM strike prices with a difference of 1000 in front month contract (beyond the strike quoted by MM1 and MM2)

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

- a. Table 1 Base minimum lots required to be quoted by all designated market makers:

Level	Minimum lots (Bids & Asks separately) at all eligible strikes for respective market makers.		Required presence as % of total time specified by the exchange (monthly presence requirement)
	Bid side	Ask side	
Top line	1	1	85%
Second line	1	1	

- b. Table 2: Base maximum spread requirements for all designated market makers:

Premium range in INR (Bid based)	Maximum Bid Ask spread in INR	
	Top line	Second line
0.50 to 500	50	Top line Bid -20 and Ask +20
500.50 to 1000	100	Top line Bid -30 and Ask +30
1000.50 to 2000	200	Top line Bid -40 and Ask +40
>2000	300	Top line Bid -50 and Ask +50

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

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committee will have power to take appropriate action against the market maker who discontinue his services within 2 weeks of their empanelment. A penalty of INR 5 lakhs will be applicable in such case.

Additional Points for Market Makers

- A. The obligation fulfilment of the designated market makers shall be as per their bids submitted and no change shall be entertained.
- B. Performance of MMs for the 85 % of the time would be measured on a monthly basis.
- C. For a trading day, the At-the-money option strike shall be determined based on the closing value of the corresponding Silver Futures on the previous trading day.
- D. Presence measurement will be on a monthly basis on an average basis across all strikes which the MM is stated to quote.
- E. Timelines for computing presence: 9.10 am to 11.20 pm / 11.45* pm (*based on day light saving sessions).
- F. The rollover period is 5 trading days prior to the expiry date of the front month options contract. All market makers will start quoting in subsequent month contract from the start of rollover period.
- G. Topline would be given a weightage of 90 % whereas second line shall have 10% weightage.
- H. No Incentive to be paid for monthly presence of less than 70% however, for presence between:
 - a. 80 to 85%: 25% will be deducted from the overall incentive amount.
 - b. 75 to 80%: 40% will be deducted from the overall incentive amount.
 - c. 70 to 75%: 50% will be deducted from the overall incentive amount.

The above scheme shall be operational from November 27, 2023 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 advance notice of 15 days.

Quoting Incentive

The market maker 1 shall be eligible for a monthly incentive of INR 90,00,000 (Ninety lakhs only), market maker 2 shall be eligible for a monthly incentive of INR 50,00,000 (Fifty lakhs only) and market maker 3 shall be eligible for a monthly incentive of INR 10,00,000 (Ten lakhs only) subject to all quoting conditions being met.

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

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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

Registration as Market Maker No. _____ (1 / 2 / 3) for Silver Option in Goods contracts

Dear Sir / Madam,

- We M/s _____(Member Name / Clearing Number) having its registered office at _____ would like to get registered as a Market Maker No. _____ (1 / 2 / 3) of the National Stock Exchange of India Limited for the Silver (30 Kgs) Option in Goods contracts.
- We are aware that the successful bidders from an objective criterion-based bidding process shall be appointed as the designated market maker.
- 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 circulars / guidelines issued from time to time.
- We understand that the Exchange reserves the right to terminate the services of the 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.

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- We agree to comply with the terms and conditions as specified in the exchange circular regarding Silver Options contract and LES, as may be amended by the exchange from time to time.
- We have enclosed our bids below:

Sr. No	Obligations	Member Commitments										
1	Minimum Quoted Lots at Top line (Bid - Ask) on each side											
2	Maximum Bid / Ask spread at Topline	<table border="1"> <thead> <tr> <th>Premium range in INR (Bid based)</th> <th>Maximum Bid Ask spread in INR</th> </tr> </thead> <tbody> <tr> <td>0.50 to 500</td> <td></td> </tr> <tr> <td>500.50 to 1000</td> <td></td> </tr> <tr> <td>1000.50 to 2000</td> <td></td> </tr> <tr> <td>>2000</td> <td></td> </tr> </tbody> </table>	Premium range in INR (Bid based)	Maximum Bid Ask spread in INR	0.50 to 500		500.50 to 1000		1000.50 to 2000		>2000	
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0.50 to 500												
500.50 to 1000												
1000.50 to 2000												
>2000												

The details of the contact person from our organization is as given below

Name: _____ Designation: _____ Mobile: _____
 Phone: _____ Email: _____

For << Organization Name >>

(Signature of Authorized Signatory & Stamp)

Name:

Designation:

Date:

Location:

Notes

- Members are requested to send their bids in email with subject “Bid for LES on Silver Option in Goods” to **Mr. Hitesh Sethia** at hsethia@nse.co.in
- If the bids are incomplete, Exchange shall reject the application.

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- 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 in the respective categories i.e., MM1, MM2 and MM3.
- 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 MMs 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**

Scenario	Buy / Sell lots (each side)	Points
Scenario 1	1	3
Scenario 2	2	4
Scenario 3	3	5
Scenario 4	4	6
Scenario 5	5	7

➤ **Topline Bid Ask spread for premium INR 0.50 to 500**

Scenario	Bid – Ask in INR	Points
Scenario 1	50	1
Scenario 2	45	3
Scenario 3	40	5
Scenario 4	35	7
Scenario 5	30	9

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➤ **Topline Bid Ask spread for premium INR 500.50 to 1000**

Scenario	Bid – Ask in INR	Points
Scenario 1	100	1
Scenario 2	90	3
Scenario 3	80	5
Scenario 4	70	7
Scenario 5	60	9

➤ **Topline Bid Ask spread for premium INR 1000.50 to 2000**

Scenario	Bid – Ask in INR	Points
Scenario 1	200	1
Scenario 2	180	3
Scenario 3	160	5
Scenario 4	140	7
Scenario 5	120	9

➤ **Topline Bid Ask spread for premium > 2000**

Scenario	Bid – Ask in INR	Points
Scenario 1	300	1
Scenario 2	280	3
Scenario 3	260	5
Scenario 4	240	7
Scenario 5	220	9