

National Stock Exchange of India Limited

Circular

Department: COMMODITY DERIVATIVES	
Download Ref No: NSE/COM/60675	Date: February 13, 2024
Circular Ref. No: 10/2024	

All Members,

Corrigendum – Liquidity Enhancement Scheme – Silver Options (Option in Goods)

This is a corrigendum to the Exchange circular regarding the captioned subject (Liquidity Enhancement Scheme – Silver Options (Option in Goods)), download Ref No - NSE/COM/60667 dated February 13, 2024. Kindly note that this circular supersedes aforesaid circular.

In terms of provisions of the Rules, Byelaws 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/59196 dated November 01, 2023, had announced introduction of LES in Silver Options with effect from November 27, 2023, to encourage active participation and overall market development.

Based on the market feedback received by the Exchange, it has been decided to enhance the Liquidity Enhancement Scheme (LES). The salient features of the LES on Silver (30 Kgs) Options on Goods contracts 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.

National Stock Exchange of India Limited

There shall be total five market makers (MM1, MM2, MM3, MM4 and MM5) for the Silver (30 kgs) Options on Goods contracts. The MM1 and MM2 appointed as per the existing LES on Silver, which was effective from November 27, 2023, shall continue as MM1 and MM2 as per the enhanced LES as per this circular, as the obligations and other requirements for MM1 and MM2 continue to remain the same. However, the MM3 appointed as per the existing LES on Silver shall discontinue w.e.f March 01, 2024.

The exchange will appoint another three market makers (MM3, MM4 and MM5) for the Silver (30 kgs) Options on 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 February 19, 2024 (1900 hrs) 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 3 or Market maker 4 or Market maker 5. The existing MM1 and MM2 and their related entities shall not be eligible to apply for becoming a designated market maker under this scheme (i.e., for MM3, MM4 and MM5).

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 :

- **Obligation of Market Maker 1 (MM1) – The existing MM1 shall continue.**
 - 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.

- **Obligation of Market Maker 2 (MM2) – The existing MM2 shall continue.**
 - Strikes to be quoted : 5 OTM strike prices with a difference of 500 (Beyond the strikes quoted by MM1)

- **Obligation of Market Maker 3 (MM3) – New MM3 designated based on this circular**
 - Strikes to be quoted : 4 OTM strike prices with a difference of 250 in front month contract (beyond what is quoted by all other market makers i.e., MM1, MM2, MM4 and MM5)

- **Obligation of Market Maker 4 (MM4) – MM4 designated based on this circular**
 - Strikes to be quoted : 2 ITM and 4 OTM strike prices, which are in the multiples of 250 (other than strike prices in multiples of 500 and 1000) in front month contract. (i.e., in the multiples of 250 but not in the multiples of 500 and 1000)

- **Obligation of Market Maker 5 (MM5) – MM5 designated based on this circular**

National Stock Exchange of India Limited

- Strikes to be quoted : 5 OTM strike prices, beyond the strikes quoted by MM4, which are in the multiples of 250 (other than strike prices in multiples of 500 and 1000) in front month contract. (i.e., in the multiples of 250 but not in the multiples of 500 and 1000)

An example of the market maker-wise obligated strikes is provided in Annexure III.

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

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	

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

National Stock Exchange of India Limited

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 on a daily basis shall be from 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.
- I. The market makers shall on a best effort basis, also quote in the strikes other than the obligated strikes, if there is an open interest in those strikes, to facilitate smooth rollover by other market participants.

The above scheme shall be operational from March 04, 2024 and shall remain in force till May 26, 2024, i.e., validity of 6 months from the date of initial launch on November 27, 2023. The Exchange reserves the right to amend / discontinue the scheme at any time with an advance notice of 15 days.

Quoting Incentive

Subject to all quoting obligations and requirements being met, the eligible monthly incentive for the newly designated market makers as per this circular shall be as mentioned below:

- Market maker 3 shall be eligible for INR 25,00,000 (Twenty Five lakhs only),
- Market maker 4 shall be eligible for INR 35,00,000 (Thirty Five lakhs only),
- Market maker 5 shall be eligible for INR 25,00,000 (Twenty Five lakhs only).

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

National Stock Exchange of India Limited

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. _____ (3 / 4 / 5) 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. _____ (3 / 4 / 5) of the National Stock Exchange of India Limited for the Silver (30 Kgs) Options on 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.
- We agree to comply with the terms and conditions as specified in the exchange circular regarding Silver (30 Kgs) Options on Goods contract and LES, as may be amended by the exchange from time to time.
- We have enclosed our bids below:

National Stock Exchange of India Limited

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 Options on Goods" to **Mr. Hitesh Sethia** at hsethia@nse.co.in
- If the bids are incomplete, Exchange shall reject the application.

National Stock Exchange of India Limited

- 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., MM3, MM4 and MM5.
- 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 day of intimation to the market makers 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

National Stock Exchange of India Limited

Scenario 2	45	3
Scenario 3	40	5
Scenario 4	35	7
Scenario 5	30	9

➤ **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

National Stock Exchange of India Limited

Annexure III

Market Maker-wise Obligated Strikes

An example of the market maker-wise obligated strikes for quoting is provided below for reference.

Assuming that the closing value of the corresponding Silver Futures on the previous trading day is 74,900, the obligated strikes for each market maker shall be as given below:

Moneyiness Descriptor*	CE strikes	PE strikes	Market Maker
ITM 2	74,000	76,000	MM 1
A-ITM 2	74,250	75,750	MM4
ITM 1	74,500	75,500	MM 1
A-ITM 1	74,750	75,250	MM4
ATM	75,000	75,000	MM 1
A-OTM 1	75,250	74,750	MM4
OTM 1	75,500	74,500	MM 1
A-OTM 2	75,750	74,250	MM4
OTM 2	76,000	74,000	MM 1
A-OTM 3	76,250	73,750	MM4
OTM 3	76,500	73,500	MM 1
A-OTM 4	76,750	73,250	MM4
OTM 4	77,000	73,000	MM 1
A-OTM 5	77,250	72,750	MM5
OTM 5	77,500	72,500	MM 2
A-OTM 6	77,750	72,250	MM5
OTM 6	78,000	72,000	MM 2
A-OTM 7	78,250	71,750	MM5
OTM 7	78,500	71,500	MM 2
A-OTM 8	78,750	71,250	MM5
OTM 8	79,000	71,000	MM 2
A-OTM 9	79,250	70,750	MM5
OTM 9	79,500	70,500	MM 2
A-OTM 10	79,750	70,250	MM3
A-OTM 11	80,000	70,000	MM 3
A-OTM 12	80,250	69,750	MM3
A-OTM 13	80,500	69,500	MM3

* For referencing purpose only, text for moneyiness descriptor subject to change.