

NATIONAL STOCK EXCHANGE OF INDIA LIMITED

| DEPARTMENT : MEMBERSHIP | |
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| Circular Ref.No.: 798/2012 | |

To All Members

Sub : Market Makers on SME platform

Securities Exchange Board of India (SEBI) vide Circular Nos. CIR/MRD/DP/14/2010 dated April 26, 2010 and CIR/MRD/DSA/17/2010 dated May 18, 2010 (circulars enclosed) has stipulated that market making is mandatory in respect of all securities listed and traded on SME exchange.

Merchant bankers shall ensure market making through trading members of SME segment for a minimum period of three years from the date of listing of a security issued in accordance with the SEBI stipulation in the above mentioned circular, or from the date of migration from NSE Capital Market Segment in terms of the SEBI Issue of Capital and Disclosure requirements (ICDR) Regulation, 2009, as the case may be.

Market making shall be carried out by eligible trading members registered as market makers with NSE. These norms are applicable to all registered market makers for making market in securities listed and traded on SME segment of NSE.

“Market Making” means a facility where the market maker shall be required to provide eligible two 2-way quotes in securities listed and traded on SME platform.

“Market Maker” means a trading member of Capital Market segment of the Exchange and who satisfies the criteria as set up by the Exchange from time to time, and who has signed up with issuer (SME) / merchant banker of a SME for providing the market making facility.

“SME” means an issuer listed on SME Platform and who is eligible as per the Chapter XB of the Issue of Capital and Disclosure requirements (ICDR) Regulation, 2009 of SEBI.

“SME Platform” means a trading platform provided by the Exchange to list the specified securities issued in accordance with the Chapter XB of the Issue of Capital and Disclosure requirements (ICDR) Regulation, 2009 of SEBI and includes stock exchange granted recognition for this purpose and do not include the Main Board.

On “NSE SME platform” issuers and merchant banks will have the option to trade a security in the normal (continuous) market or auction (call auction sessions) market. Securities shall trade either in the normal or auction market.

A. ELIGIBILITY CRITERIA FOR MARKET MAKERS ON EMERGE

The eligibility criteria for Market Makers are listed below; these will be reviewed on an annual basis:

1. Only trading members of Capital Market Segment of NSE will be eligible to apply for registering as market makers.
2. At the time of application and at all times while being a Market Maker, the Market Maker should meet the minimum net worth of Rs. 1 crore (as per computation methodology stipulated for membership of the NSE Capital Market Segment). For the purpose of this clause, the existing networth, as specified by NSE for the Capital Market Segment will be considered.
3. Any other criteria as specified by NSE from time to time.

B. REGISTRATION AS MARKET MAKER

The Market Maker needs to be registered with NSE as is specified in Chapter VIII of the Byelaws of NSE and hence the procedure for registration as stated in the Byelaws shall become applicable.

1. Submit application for registration as market maker as per **Annexure 1**, Net worth certificate duly certified by a practicing Chartered Accountant along with a Resolution of its Board (*Incase valid Net worth certificate submitted in Document Repository, the same need not be resubmitted along with the Annexure 1*).
2. NSE after it is satisfied that the trading member can act as a market maker can grant approval to the trading member to act as a Market Maker.
3. The approval given by NSE is only as a registered Market Maker and does not constitute an approval for carrying out market making for any security.

Designated Market Maker

There shall be a minimum of one and maximum of five designated Market Makers for every security traded on the SME segment. To become a Designated Market Maker for a security listed on the SME segment, registered Market Makers shall apply to NSE in the format provided in Annexure 2 and fulfill the following conditions:-

1. Should be recommended as a market maker by the merchant banker

2. Market Maker should submit relevant agreements with Merchant Banker and/or Nominated Investor and / or Issuer
3. If market making is done on behalf of a client then relevant agreement with Merchant Banker and / or client and / or issuer should be disclosed
4. Once designated as a Market Maker for a particular security, the Market Maker shall act in that capacity for a period as mutually decided between the Merchant Banker and the Market Maker.
5. Market makers can carry out market making for themselves, nominated investor and/or client.
6. Any other condition as stipulated by NSE from time to time.

Deregistration of Market Maker

A trading member registered as a market maker shall apply to NSE seeking deregistration as a Market Maker as per the procedure given below:-

1. Submit an application to NSE, with a notice of one month.
2. If the Market Maker is already a designated market maker for a particular security, the Market Maker seeking deregistration should submit no objection certificate from the merchant banker(s)/issuer (s)/nominated investor(s)/ client(s) for the particular security for which the Market Maker is designated.
3. NSE reserves right to discontinue the Market Maker from further participation in market making, at its own discretion with/without notice.

C. OBLIGATIONS AND RESPONSIBILITIES OF MARKET MAKER

The Market Maker shall at all times adhere to the Byelaws, Rules and Regulations of NSE and shall comply with such operational parameters, rulings, notices, guidelines and instructions of NSE as may be applicable from time to time. The Market Maker shall also comply with the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009, Circulars issued by SEBI from time to time and such other Rules, Regulations and or Guidelines issued by SEBI from time to time.

1. Eligible quote

- The Market Maker shall provide eligible two- way quotes for a security from the date of listing of a security or from the date of being notified as a designated Market Maker for the security.
- An eligible two-way quote shall mean a bid and an offer simultaneously for a minimum of one

trading lot and within the defined maximum bid-offer spread for the security. The defined bid offer spread for each security shall be published by the exchange from time to time.

- Execution of the order at the quoted price and quantity must be guaranteed by the Market Maker, for the quotes given by him.
- During the compulsory market making period, the market maker shall not buy securities from the promoters or any persons belonging to the promoter group or any person who has acquired securities from such promoters or promoter group.

2. Presence

- The Market Maker has to be present for 75% of the market time for each trading session of the normal market. In case of securities trading in auction market, the Market Maker needs to be present for 75 % of the auction session and also necessarily present during the random closure period of each auction session.

3. Minimum inventory

- Market Maker has to ensure arrangement of minimum inventory on date of allotment as specified by NSE and / or SEBI from time to time.

4. Arrangements with nominated investor

- Market Makers can have arrangement with nominated investors as described in Chapter XB of SEBI ICDR Regulations. The Market Maker will ensure that the money / securities deposited/ committed by the client / nominated investors shall not be used by the Market Maker for any purpose other than market making and the purposes mentioned in Rules, Regulations and Circulars specified by SEBI and the Circulars issued by NSE from time to time.

5. Quotes for odd lots :

- The Market Maker has to provide a quote in odd lot market, where trading will take place for value of market lot less than the minimum lot size allowed for trading in SME platform.
- The market maker shall buy the entire shareholding of a shareholder of the issuer in one lot where value of such shareholding is less than the minimum contract size allowed for trading on the SME exchange.
- Market Maker shall not sell in lots less than the minimum contract size allowed for trading on the SME segment.

6. Exceptions for obligations

The Market Maker may temporarily discontinue market making (stop putting quotes) for a particular security during the black out periods. The following conditions may be treated as eligible for blackout period.

- a. In case of technical reasons (such as connectivity issues, system breakdown etc), immediate /

advance intimation must be sent to the exchange with reason and likely period of blackout.

b. Exceptional circumstances where the Market Maker may perceive deliberate & designed attempts to destabilize the market making or price of the security by some party in its individual capacity or in group/syndicate. Under such circumstances, Market Maker may stop market making and bring it in the notice of NSE immediately.

c. In the normal market, if the security trades at a circuit filter price level, it will be automatically considered as blackout for the day and the Market Maker will not be obliged to provide further quotes. In such a case, prior intimation to NSE will not be required.

D. OTHER TERMS AND CONDITIONS

1. The Market Maker shall comply with all such requirements, existing and future with regard to and in connection with the market making as stipulated in this Circular and the Circulars issued by NSE from time to time;

2. The Market Maker shall abide by the statutory requirements including the operating guidelines, instructions, circulars etc. issued by SEBI and/or NSE from time to time with/without prior notice;

3. The Market Maker shall maintain and preserve such information, records, books and documents pertaining to transactions related to market making for such period as may be specified by NSE from time to time;

4. The Market Maker understands and agrees that if the Market Maker commits a breach or violation of the statutory requirements or any instructions or circulars of NSE with respect to market making, NSE may take any action including the withdrawal of permission to act as Market Maker or levy of compensation on the Market Maker as may be determined by NSE. The Market Maker agrees that the compensation determined and imposed by NSE as mentioned above shall be final and binding on the Market Maker and declares that the Market Maker will not dispute the same;

5. The Market Maker shall conduct the market making prudently and shall ensure that it will not be prejudicial or detrimental to public interest in general, and to NSE in particular;

6. NSE shall not be held responsible or liable for any failure of computer systems and telecommunication network etc and NSE has the right to inspect and supervise all computer systems, software programs, tele-communications equipment etc, at the office of the Market Maker and the Market Maker shall not make any alterations, modifications and changes without prior written consent of NSE;

7. The Market Maker shall not disclose, reveal, publish and advertise any material information relating to operations, registration as a Market Maker, software, hardware, etc. of NSE without

prior written consent of NSE except and to the extent as may be required in the normal course of its business;

8. The Market Maker shall indemnify NSE against any loss or damage including liabilities arising out of as a result of NSE permitting the Market Maker to avail the market making for the security;

9. The Market Maker has obtained all necessary approvals, registrations and certifications if any required from relevant authorities for the purpose of participating in the market making and shall ensure that such approvals, registrations and certifications will remain in force including by taking prompt steps for the renewal of the same;

10. The Market Maker will bind by any additional risk containment measures laid down by NSE from time to time.

**For and on behalf of
National Stock Exchange of India Limited**

Hari K
Vice President

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