



CIRCULAR

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April 26, 2010

To,

The Executive Directors/Managing Directors
of all Stock Exchanges

Dear Sir/Madam,

**Sub: Guidelines for market makers on Small and Medium Enterprise (SME)
exchange/separate platform of existing exchange having nation wide
terminal**

SEBI has put in a framework for setting up of new exchange or separate platform of existing stock exchange having nationwide terminals for SME (hereinafter referred to as the 'Exchange/ SME Exchange'). In order to operationalise the said framework, necessary changes have been made to applicable Regulations, circulars etc. As per the framework, market making has been made mandatory in respect of all scrips listed and traded on SME exchange. The following guidelines shall be applicable to the Market Makers on this exchange.

1. Applicability

These guidelines are applicable to all the registered Market makers for making market in all scrips listed and traded on SME exchange.

2. Registration of the Market Maker

Any member of the Exchange would be eligible to act as Market Maker provided the criteria laid down by the exchange are met. The member brokers desirous of acting as Market Maker in this exchange shall apply to the concerned stock exchange for registration as Market Makers unless already registered as a Market Maker.

3. The obligations and responsibilities of Market Makers

The Market Maker shall fulfil the following conditions to provide depth and continuity on this exchange:

- (a) The Market Maker shall be required to provide a 2-way quote for 75% of the time in a day. The same shall be monitored by the stock exchange. Further, the Market Maker shall inform the exchange in advance for



each and every black out period when the quotes are not being offered by the Market Maker.

- (b) The minimum depth of the quote shall be Rs.1,00,000/- . However, the investors with holdings of value less than Rs 1,00,000 shall be allowed to offer their holding to the Market Maker in that scrip provided that he sells his entire holding in that scrip in one lot along with a declaration to the effect to the selling broker.
- (c) Execution of the order at the quoted price and quantity must be guaranteed by the Market Maker, for the quotes given by him.
- (d) There would not be more than five Market Makers for a scrip. These would be selected on the basis of objective criteria to be evolved by the Exchange which would include capital adequacy, networth, infrastructure, minimum volume of business etc.
- (e) The Market Maker may compete with other Market Makers for better quotes to the investors;
- (f) Once registered as a Market Maker, he has to start providing quotes from the day of the listing / the day when designated as the Market Maker for the respective scrip and shall be subject to the guidelines laid down for market making by the exchange
- (g) Once registered as a Market Maker, he has to act in that capacity for a period as mutually decided between the Merchant Banker and the market maker.
- (h) Further, the Market Maker shall be allowed to deregister by giving one month notice to the exchange, subject to (g) above.

4. Dissemination of Information

The exchange should disseminate the list of Market Makers for the respective scrip to the public.

5. Number of Shares per Market Maker

The number of companies in whose shares a Market Maker would make market should be linked to his capital adequacy as decided by the exchange.



6. Risk Containment Measures and monitoring for Market Makers

All applicable margins should be levied and collected without any waiver/exemption.

Capital Adequacy

The exchanges would prescribe the capital adequacy requirement for its members to commensurate with the number of companies which Market Maker proposes to make market. Further, the stock exchange may lay down additional criteria also for Market Makers as risk containment measures. The same shall be monitored by the stock exchange.

Monitoring

All the requirements with regard to market making shall be monitored by the stock exchange and any violation of these requirements would be liable for punitive action to be taken by the Disciplinary Action Committee (DAC) of the Exchange, which may also include monetary penalty apart from the trade restriction as decided by the DAC under intimation to the Merchant Banker.

7. Price Band and Spreads

The exchanges shall prescribe the maximum spread between bid and ask price. The exchange, may at its discretion also prescribe the price bands for the same. Further, in case of new issue the spread shall also be specified in the offer document with the prior approval of the exchange

This circular is being issued in exercise of powers conferred under Section 11 (1) of the Securities and Exchange Board of India Act, 1992 to protect the interests of investors in securities and to promote the development of, and to regulate the securities market.

Yours faithfully,

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