

## **Annexure II - LEIPS-II**

**LEIPS-II will be launched on October 26th. LEIPS-II will help in building a healthy derivatives order book for the SENSEX and its underlying 30 stocks by maximizing investor participation across the board; both market makers ('MM's hereafter) and general market participants ('GMP's hereafter) will be incentivized to participate.**

**LEIPS-II has three type of incentives** – I) Volume Based Cash Incentive - tied to trading volumes in eligible derivatives, II) Open Interest (OI) Cash Incentive - for average OI during a month to ensure building of sustainable core liquidity, and III) Lower Transaction Fee - to lower members trading expenses.

Under the programme, MMs will be incentivized at higher volume incentive rates compared to GMPs. MMs will have continuous quoting obligation with specified size and spread in the chosen security option/future contracts. Members can express their interest in market making for options and/or futures for one or more security (SENSEX and 30 individual SENSEX stocks). For example, a member can choose to be a MM for SENSEX Futures and SBI Options.

**The effective implementation and success of LEIPS-II will require detailed monitoring of order and trade activities of MMs and GMPs.** BSE will monitor presence of MMs and their compliance with quote obligations through a mix of both online and offline surveillance. BSE will provide MMs and GMPs with reports on their trading activities on a regular basis.

**Eligibility for the additional MM incentive payments will be determined at the end of each month based on fulfillment of the MM's obligation during that month.** Incentives earned by MMs and GMPs will be paid out in cash on a daily basis (to the extent of the GMP payout) and the remaining will be paid to MMs in cash within 7 days from the end of the calendar month. BSE will also generate reports for its board and SEBI on a periodic basis to keep them informed and to comply with SEBI Circular CIR/DNPD/5/2011 dated June 2, 2011 (also made available vide BSE notice: 20110602-18).

Details of Incentives, Obligations, Eligibility, Payment Schedule, Monitoring etc. of LEIPS-II are described in the following pages. We invite members to register their participation interests as MM to avail the extra-benefits. Member should print the attached application form on official stationary and submit it to us in physical format.

Queries and Information Contact:

Please contact your individual relationship managers (or contacts as listed in Annexure III) for more details.

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The information in this document is subject to change without notice. Registration of a Member of BSE in LEIPS-I (BETA) and LEIPS-II Programme is at the sole discretion of BSE, and is subject to compliance with the eligibility requirements and all other applicable laws and regulations, circulars, rules and directives. Notwithstanding anything contained herein, BSE shall have absolute discretion and right to vary, add to and delete any or all of the eligibility requirements and criteria for such registration.

# LEIPS-II – Terms and Conditions

Liquidity Enhancement Incentive Programmes (LEIPS-II) is launched by BSE with the goal of creating lasting, self-sustaining liquidity in the BSE derivatives segment. The focus of LEIPS-II will be derivatives\* on SENSEX and its underlying 30 stocks.

The programme will incentivize both MMs and GMPs by payment of cash for participating in the derivatives segment of BSE.

Clause 1 – Incentives / Benefits	Market Makers				General Market Participants			
	Futures (Rs. /Cr.)				Futures (Rs. /Cr.)			
	Passive*		Active*		Passive*		Active*	
	Buy	Sell	Buy	Sell	Buy	Sell	Buy	Sell
	2,300	2,300	1,100	1,100	1,100	1,100	1,100	1,100
	Options (Rs. / Cr. Premium)				Options (Rs. / Cr. Premium)			
	Passive*		Active*		Passive*		Active*	
	Buy	Sell	Buy	Sell	Buy	Sell	Buy	Sell
2,000	6,000	2,000	2,000	2,000	2,000	2,000	2,000	
Open Interest#† Cash Incentive	Based on the average open interest of futures and options over a month . For options, only short option positions will be eligible for OI incentive. Payout structure - <ul style="list-style-type: none"> <li>Till exchange OI of Rs. 10,000 Cr. (average over a month)                             <ul style="list-style-type: none"> <li>Rs. 5,000/Cr. of OI average over a month</li> </ul> </li> <li>If exchange OI exceed Rs. 10,000 Cr. (average over a month)                             <ul style="list-style-type: none"> <li>Pool of Rs. 5 Cr. apportioned according to average OI</li> </ul> </li> </ul>							
Lower Transaction Fee	Futures (Rs. /Cr.)				Options (Rs. / Cr. Premium)			
	Active		Passive		Active		Passive	
	50		0		50		0	

Clause 2 – Obligations	Quote	Provide 2-way continuous quote during regular trading hours. The only exceptions will be due to technical reasons and fast market conditions. Cumulative downtime in a month should be less than 25% of trading hours. Fulfillment of this quote obligation condition is subject to the obligation conditions specified below. Exception—Market halts in a contract or underlying will not be counted as trading hours	No Obligations
	Spread & Size	Futures – <ul style="list-style-type: none"> <li>Current Month                             <ul style="list-style-type: none"> <li>SENSEX - Maintain a quote size/spread ratio of at least 1 (for example, 2 contracts per side, with a spread of 2 index points); the maximum spread cannot exceed 10 index points.</li> <li>SENSEX Stocks – For stock futures with prices below Rs 100, maintain a quote size of at least 2 contracts with a spread of Rs 0.50. For others maintain a maximum spread of 50bps (0.5%) with a quote size (contracts)/spread (bps) ratio of at least 0.10.</li> </ul> </li> <li>Presence required in other months</li> </ul> Options – <ul style="list-style-type: none"> <li>Current Month                             <ul style="list-style-type: none"> <li>2 contracts of 2-sided quote for both puts and calls for each security / strike with the specified quote spread (refer table 1 overleaf )</li> <li>Required to quote at ATM (or near-the-money) , nearest 2 ITM and 4 OTM strikes</li> </ul> </li> <li>Presence required in other months</li> </ul>	
	Roll (5-days prior to expiry)	<ul style="list-style-type: none"> <li>During the roll, quote obligations for the current month contracts will also be applicable to the next months contracts for both futures and options but MM's quoting obligations for current month options contracts are relaxed to ATM, nearest 1 ITM and 2 OTM strikes only</li> </ul>	
	After the daily volume ceilings are hit	<ul style="list-style-type: none"> <li>Current Month                             <ul style="list-style-type: none"> <li>After the daily volume incentive caps are reached, maintain continuous 2-way quotes with relaxed size and spread obligations of at least 1 contract with specified maximum spread (10 Index Points for SENSEX Futures, Rs 0.50 or 50 bps for Stock Futures as described above and as per Table 1—Options Spread Specification for options)</li> </ul> </li> <li>Presence required in other months</li> </ul>	

† Incentives are payable only for current month expiration on monthly futures and options contracts on eligible underlying, and near month expiration contracts of the same during the roll period

\* Active / passive—In any trade, the quote with the earlier time stamp is passive and the quote with the later time stamp is active

# Open Interest—Notional volume of options and/or futures contracts that are not closed or delivered at the end of a particular day.

	Market Makers	General Market Participants
Clause 3	<ul style="list-style-type: none"> <li>Firms have to register with the exchange to participate as a MM</li> <li>Demonstrate ability to quote, trade and clear on a consistent basis                             <ul style="list-style-type: none"> <li>i.e. 2-way continuous quoting with for a period of 20 days prior to launch of the programme with no spread obligations</li> </ul> </li> <li>Demonstrated expertise in derivatives trading for reasonable period of time</li> <li>Net worth of Rs. 1 Cr. (US\$ 0.22 Million)</li> <li>No serious disciplinary action against the member in the last year</li> </ul>	<ul style="list-style-type: none"> <li>Firms have to register with the exchange to be eligible for the incentives</li> </ul>
Clause 4	<ul style="list-style-type: none"> <li>Eligibility for MM incentive payments will be determined at the end of each month based on fulfillment of the MM’s obligation during that month</li> <li>In case of non-fulfillment of obligations for a specific month, MM’s incentive payments will be at GMP rates</li> <li>Exchange will provide the MM with reports on their trading activities on a regular basis. Additionally, the Exchange will                             <ul style="list-style-type: none"> <li>Implement online and offline monitoring of MM presence</li> <li>Exchange reserves the right to render any members ineligible from further participation in the programme if they engage in activities that are detrimental to the development of the markets</li> <li>Issue alerts on non-compliance with quote obligations</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Exchange reserves the right to render any members ineligible from further participation in the programme if they engage in activities that are detrimental to the development of the markets</li> </ul>
Clause 5	<p>Daily caps</p> <ul style="list-style-type: none"> <li>Cash volume incentives paid in futures up to a maximum of Rs. 1,000 Cr. in daily volume</li> <li>Cash volume incentives paid in options up to a maximum of Rs. 500 Cr. of daily options premium volume</li> <li>Payouts per trade will be capped at maximum of 10 contracts</li> <li>Each member will be entitled to be paid at least Rs. 5,000 (Rs. 2,500 in futures and Rs. 2,500 in options) daily in Volume Based Cash Incentives even if the daily volume based incentive ceilings have been hit. The calculations will be based on volume based cash incentive payout rates</li> </ul>	
Clause 6	<ul style="list-style-type: none"> <li>Participating members—both MMs and GMPs will be paid on a daily basis at the rate of Rs. 1,100 / Cr. of Futures volume and Rs. 2,000 / Cr. of Options Premium volume</li> <li>Open Interest Cash Incentives and additional Volume Based Cash Incentive for fulfilling the MM obligations will be paid within 7 business days from the end of the calendar month</li> <li>All cash payouts will be paid after TDS deductions. TDS certificate will be issued on quarterly basis</li> <li>Service Tax related to incentive payouts will be paid to the members upon submission of invoices</li> </ul>	
Clause 7	<ul style="list-style-type: none"> <li>MMs will separately apply for market making in options and futures on one or more security (SENSEX and 30 individual SENSEX stocks) .</li> <li>MM for options will have quoting obligation for all the strikes of underlying in call and puts as specified in Obligations—Spread &amp; Size.</li> <li>The obligations / incentive payment in each underlying will be administered separately (i.e., a member can be MM for SENSEX Futures and SBI Option. Obligations / Payouts in SENSEX Futures and SBI Options will be administered separately.)</li> </ul>	All
Clause 8	<ul style="list-style-type: none"> <li>Launch—October 26<sup>th</sup></li> <li>Programme will run for the period of 6 months (or till trading volume reaches 1% of market cap for underlying)</li> </ul>	

**Table 1—Options Spread Specification**

SENSEX		Stock	
Bid Prices of Premium (Rs.)	Maximum Spread (Rs.) (Current Month Contract)	Bid Prices of Premium (Rs.)	Maximum Spread (Rs.) (Current Month Contract)
0–10	0.50	0–5	0.50
10–50	1.00	5–10	1.00
50–100	2.00	10–50	2.00
100–250	4.00	50–100	4.00
250–500	6.00	100–250	6.00
500–750	9.00	250–500	9.00
>750	12.00	>500	12.00

Registration Form for Market Maker in LEIPS-II

(Please print the form on next page on the official stationary (letter head) of the member.

Submit it to your relationship manager or one of the contacts listed in Annexure III)

To,

Business Development,  
Bombay Stock Exchange Ltd,  
P.J Towers, Dalal Street,  
Mumbai 400001, India  
Fax: (022) 2272 3001

Registration in LEIPS-II as Market Maker

1. We \_\_\_\_\_(name of the member / Clearing Number) are registering as 'Market Maker' (MM) in listed securities and type (as indicated in Table 1—List of Securities for Market Making) in accordance to the terms and conditions stated in the LEIPS-II – Terms and Conditions.
2. We have fulfilled all the Eligibility conditions as given in Clause 3 of LEIPS-II – Terms and Conditions.
3. As a MM we will fulfill all obligations as given in Clause 2 of LEIPS-II – Terms and Conditions.
4. We will abide by the letter and spirit of this LEIPS-II circular (as well as all circulars issued by SEBI and the BSE) to maintain the sanctity of the market place. We are aware that BSE reserves the right to render certain members ineligible from further participation in the programme if they engage in activities that are detrimental to the development of the market.
5. We understand that BSE has the right to terminate this programme or amend or expand one or more of the conditions laid down in this circular at its discretion in accordance with SEBI circular CIR/DNPD/5/2011.

6. Listed below are our service providers:

Front Office Vendor: \_\_\_\_\_

Back Office Vendor: \_\_\_\_\_

7. Listed is the contact details of the designated person from our organization for all derivatives related transactions:

Name: \_\_\_\_\_

Designation: \_\_\_\_\_

Mobile: \_\_\_\_\_

Phone: \_\_\_\_\_

Email: \_\_\_\_\_

\_\_\_\_\_  
Name Position (Designated Person)

\_\_\_\_\_  
(Signature / Stamp of the company)

\_\_\_\_\_  
Place, date

\_\_\_\_\_  
Phone / Fax

\_\_\_\_\_  
Email Id

Registration in LEIPS-II as Market Maker (cont.)

Please indicate securities and type (Future and/or Options) for which your firm is registering as market maker by putting a clearly marked "X" in the appropriate cell in the Table 1—List of Securities for Market Making (below). Your application will be considered incomplete without this.

Table 1—List of Securities for Market Making

	Futures	Options
SENSEX		
Bajaj Auto		
Bharti Airtel		
BHEL		
Cipla		
Coal India		
DLF		
HDFC		
HDFC Bank		
Hero Honda		
Hindalco		
HUL		
ICICI Bank		
Infosys		
ITC		
Jaiprakash Associates		
Jindal Steel		
Larsen and Toubro		
Mahindra and Mahindra		
Maruti Suzuki India		
NTPC		
ONGC		
Reliance		
SBI		
Sterlite Industries		
Sun Pharma		
Tata Motors		
Tata Power		
Tata Steel		
TCS		
WIPRO		