

LEIPS-III

(Effective from 27th February 2012)

Pursuant to SEBI Circular CIR/DNPD/5/2011 dated June 2, 2011 (BSE Notice no-20110602-18, dated June 02, 2011), permitting stock exchanges to introduce Liquidity Enhancement Schemes (LES) for illiquid securities in their equity derivatives segment, the Exchange has launched a series of **Liquidity Enhancement Incentive Programmes (LEIPS)** with the goal of creating lasting, self-sustaining liquidity in BSE's Futures & Options Segment.

The first programme in the series LEIPS-I (BETA) was launched on 28th September 2011 with a view to get the members ready for the actual programme. LEIPS-I (BETA) successfully concluded on 25th October 2011.

The second programme in the series LEIPS-II was launched on 26th October 2011. The purpose of this programme is to foster development of healthy derivatives order book for the SENSEX, its underlying 30 stocks and BANKEX by maximizing participation across the board, both from market participants as well as investors in general.

The third programme in the series LEIPS-III was launched on 1st February 2012. The programme focuses on Options in SENSEX and covers all SENSEX Options contracts with end-of-month expiry cycle.

The programme incentivizes both MMs and GMPs by payment of cash for their participation as per prescribed terms and conditions. Active trading members of Futures & Options segment of the Exchange who have already signed up in LEIPS-II programme as General Market Participant (GMP) shall be treated as GMPs in LEIPS-III programme as well. Similarly, Market Makers (MMs) who have registered as MMs in LEIPS-II programme for SENSEX Options shall automatically qualify to be a MM in LEIPS-III programme.

LEIPS III envisages the MMs to have a continuous quoting obligation with specified size and spread in SENSEX options contracts. The programme offers 4 types of incentives to market participants –

1. Trading volume based cash incentives paid on daily basis to MMs and GMPs
2. Open Interest (OI) based cash incentives paid on daily basis to MMs and GMPs
3. Quoting obligations based cash incentives paid on daily basis to MMs
4. Lower transaction fees for all trading members on premium based turnover.

The Exchange monitors performance of the programme including presence of MMs and their compliance with the quote obligations through a mix of online and offline monitoring tools. The Exchange also publishes information on the programme from time to time as applicable vide SEBI Circular CIR/DNPD/5/2011 dated June 2, 2011.

In accordance with the aforesaid SEBI circular, the Exchange shall amend / discontinue the programme at any time with an advance notice of 15 days. Also, the programme shall be discontinued as soon as the average trading volume on the Exchange, during the last 60 trading days, reaches 1% of market capitalization of the underlying, or six months from introduction of the scheme, whichever is earlier.

The Exchange has been regularly amending the terms and conditions of its LEIPS programmes based on the overall progress of the programme, market feedback and policy changes.

With effect from 27th February 2012, the Exchange proposes following key amendments in terms and conditions of LEIPS-III Programme—

- Revision in Trading volume based cash incentive rates for both GMPs and MMs from existing flat rate to a slab based structure depending upon the moneyness of strikes
- Relaxation of Level 1 Quoting Obligations rules for market makers
- % of Level 2 Quote Obligations reduced from 95% to 85%
- Revision in Level 2 Quoting Obligation rules and quoting based cash incentive payout structure

The amended programme starts from 27th February 2012 and details are given in subsequent pages.

For any further clarifications, please contact your designated Relationship Managers.

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The information in this document is subject to change without notice. Registration of a Member of BSE in LEIPS-III 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.

Liquidity Enhancement Incentive Programmes (LEIPS-III) is launched by BSE with the goal of creating lasting, self-sustaining liquidity in the BSE F&O segment. **LEIPS-III focuses on Options on SENSEX with end-of-month expiry cycle.** The programme incentivizes both MMs and GMPs by payment of cash for their participation in the programme as per prescribed terms and conditions.

| | | Market Makers | General Market Participants |
|---|--|--|--|
| Clause 1 – Incentives / Benefits | Trading Volume[†] Based Cash Incentive | Market Maker (MM) shall be paid incentives on notional turnover at moneyness strikewise rates as per Table 1 overleaf | General Market Maker (GMP) shall be paid incentives on notional turnover at moneyness strikewise rates as per Table 1 overleaf |
| | Quoting Based Cash Incentive | Based on fulfillment of Level 2 Quote Obligations, qualifying MMs shall be paid incentives at moneyness strikewise rates per day per MM as per Table 3 overleaf till total of such strike wise payout reaches a pool as specified in Table 3, Qualifying MMs to be paid incentives on pro-rata basis thereafter. | Not Applicable |
| | Open Interest[#] Cash Incentive | Based on daily Exchange OI of SENSEX Options. *Only short option positions will be eligible for OI incentive. <ul style="list-style-type: none"> Till Exchange OI for Options on any given trading day is less than or equal to Rs. 4000 Cr., the incentive for that day shall be paid at a rate of Rs.250 per Cr of Member OI* for the day. If Exchange OI for Options on any given trading day crosses Rs.4000 Cr, then incentive for that day shall be paid on proportionate basis* from a daily pool of Rs.10 Lakhs. | |
| | 1st Trade Incentive for customers | <ul style="list-style-type: none"> Rs. 100 /- to be paid only one time for each registered customer trading for the first time in BSE F&O segment in SENSEX Options. Payment to be made to the member based on number of his distinct customers (based on registered UCCs) who have traded during the calendar month period. Up to first 5000 successfully registered customers by member in UCC system to be eligible to receive incentive. | |
| | Lower Transaction Fee | Options (Rs. / Cr. Premium) | |
| | Passive | Active | |
| | 0 | 50 | |

| | | | | |
|---|--|--|---|----------------|
| Clause 2 – Obligations | Quote | Level 1 Quote Obligations | Level 2 Quote Obligations | No Obligations |
| | | Provide 2-way continuous quote during regular trading hours for 75% of trading time as per Table 2 overleaf | Provide 2-way continuous quote during regular trading hours for 85% of trading time as per Table 3 overleaf | |
| | | The only exceptions** shall be due to technical reasons and fast market conditions. Fulfillment of these quote obligation conditions is subject to the obligation conditions specified below. (** Indicative Exceptions— Market halts in a contract or underlying shall not be counted as trading hours) | | |
| | Spread & Size | Level 1 Quote Obligations | Level 2 Quote Obligations | |
| | 2-way quote in any one or more of the 14 valid market making contract series specified by the Exchange Spread Size Obligations as per Table 2 overleaf | 2 way quote in any one or more pairs (pair consists of 1 Call and 1 Put strike at the same moneyness) of the valid market making contracts series Spread Size Obligations as per Table 3 overleaf | | |
| Roll Period (5-days prior to expiry) | Level 1 Quote Obligations | Level 2 Quote Obligations | | |
| | Quote obligations for current month contracts shall also be applicable to the next month options contracts. | No Roll period obligations | | |
| After the daily volume cap is breached | Level 1 Quote Obligations | Level 2 Quote Obligations | | |
| | Provide 2-way continuous quote during regular trading hours for 75% of trading time as per Table 2 overleaf even after the volume incentive cap is breached | Provide 2-way continuous quote during regular trading hours for 85% of trading time as per Table 3 overleaf even after the volume incentive cap is breached | | |
| | The only exceptions** shall be due to technical reasons and fast market conditions. (** Indicative Exceptions— Market halts in a contract or underlying shall not be counted as trading hours) | | | |

[†] Incentives are payable only for current, near and far month expiration on monthly options contracts on eligible underlying

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

Open Interest—Notional volume of options 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"> MMs who have registered for SENSEX Options in LEIPS-II programme shall automatically qualify as a MM in LEIPS-III programme Members who have not registered in LEIPS-II programme as MM have to register using a simple registration process Other Criteria— <ul style="list-style-type: none"> Demonstrated expertise in derivatives trading for a reasonable period of time Net worth of Rs. 1 Cr. (~ USD 0.20 Million) No serious disciplinary action against the member in the last 1 year | <ul style="list-style-type: none"> Active trading members of F&O segment of the Exchange who have already signed up in LEIPS-II programme as GMP shall automatically qualify as a GMP in LEIPS-III programme. Members who have not registered in LEIPS-II programme as GMP have to register with the Exchange. | | | | | | | | | | | | | | |
| Clause 4 | <ul style="list-style-type: none"> Eligibility for MM incentive payments shall be determined on daily basis based on fulfillment of the MM's obligation during the day In case of non-fulfillment of obligations for a specific day, MM's incentive payments shall be at GMP rates Exchange provides online system (https://leipsmm.bseindia.com) to MMs to view their quoting obligations (MM presence) as well as incentive payouts based on their trading activity Exchange reserves the right to render any members ineligible for further participation in the programme if they engage in activities that are detrimental to the development of the markets | Exchange reserves the right to render any members ineligible for further participation in the programme if the member engages in activities that are detrimental to the development of the markets | | | | | | | | | | | | | | |
| Clause 5 | <p>Daily Caps— Cash volume incentives shall be paid upto a maximum of Rs. 5100 Cr. in Options (Notional volume) as follows—</p> <table border="1"> <thead> <tr> <th>Total No of Time Periods</th> <th>Duration of Each Time Period</th> <th>Time Period wise Cap for Options Trading (Notional volume)</th> </tr> </thead> <tbody> <tr> <td>375</td> <td>1 minute</td> <td>Rs. 13.6 Crore</td> </tr> <tr> <td colspan="2">Daily Volume Incentive Cap</td> <td>Rs. 5,100 Crore</td> </tr> </tbody> </table> <p>Incentive to be paid on pro rata basis on volume contributed by each member in particular time period</p> <p>Payout per trade shall be capped at maximum of 40 contracts</p> | | Total No of Time Periods | Duration of Each Time Period | Time Period wise Cap for Options Trading (Notional volume) | 375 | 1 minute | Rs. 13.6 Crore | Daily Volume Incentive Cap | | Rs. 5,100 Crore | | | | | |
| Total No of Time Periods | Duration of Each Time Period | Time Period wise Cap for Options Trading (Notional volume) | | | | | | | | | | | | | | |
| 375 | 1 minute | Rs. 13.6 Crore | | | | | | | | | | | | | | |
| Daily Volume Incentive Cap | | Rs. 5,100 Crore | | | | | | | | | | | | | | |
| Clause 6 | <table border="1"> <thead> <tr> <th>Type of Incentive</th> <th>Applicable To</th> <th>Payout Structure</th> </tr> </thead> <tbody> <tr> <td rowspan="2">Trading Volume based Cash Incentive</td> <td>MM, GMP</td> <td>Pro-rata basis on options notional volume at rates as per Table 1 overleaf</td> </tr> <tr> <td>MMs fulfilling Level 1 Quote Obligations</td> <td>Additional volume based cash incentive for fulfilling Level 1 Quote Obligations on options notional volume at rates as per Table 1 Overleaf (Passive sell side)</td> </tr> <tr> <td>Quoting based Cash Incentive</td> <td>MMs fulfilling Level 2 Quote Obligations</td> <td>Additional payout to MM fulfilling Level 2 Quote Obligations upto Rs. 2 Lakh per day per MM as per Table 3 overleaf</td> </tr> <tr> <td>OI based Cash Incentive</td> <td>MM, GMP</td> <td>Based on Daily Average OI</td> </tr> </tbody> </table> <ul style="list-style-type: none"> All above payouts shall be computed and paid on daily basis. All cash payouts shall be paid after TDS deductions. TDS certificate shall be issued on quarterly basis. Service Tax related to incentive payouts shall be paid to the members upon submission of invoice. | | Type of Incentive | Applicable To | Payout Structure | Trading Volume based Cash Incentive | MM, GMP | Pro-rata basis on options notional volume at rates as per Table 1 overleaf | MMs fulfilling Level 1 Quote Obligations | Additional volume based cash incentive for fulfilling Level 1 Quote Obligations on options notional volume at rates as per Table 1 Overleaf (Passive sell side) | Quoting based Cash Incentive | MMs fulfilling Level 2 Quote Obligations | Additional payout to MM fulfilling Level 2 Quote Obligations upto Rs. 2 Lakh per day per MM as per Table 3 overleaf | OI based Cash Incentive | MM, GMP | Based on Daily Average OI |
| Type of Incentive | Applicable To | Payout Structure | | | | | | | | | | | | | | |
| Trading Volume based Cash Incentive | MM, GMP | Pro-rata basis on options notional volume at rates as per Table 1 overleaf | | | | | | | | | | | | | | |
| | MMs fulfilling Level 1 Quote Obligations | Additional volume based cash incentive for fulfilling Level 1 Quote Obligations on options notional volume at rates as per Table 1 Overleaf (Passive sell side) | | | | | | | | | | | | | | |
| Quoting based Cash Incentive | MMs fulfilling Level 2 Quote Obligations | Additional payout to MM fulfilling Level 2 Quote Obligations upto Rs. 2 Lakh per day per MM as per Table 3 overleaf | | | | | | | | | | | | | | |
| OI based Cash Incentive | MM, GMP | Based on Daily Average OI | | | | | | | | | | | | | | |
| Clause 7 | <ul style="list-style-type: none"> SENSEX Options contracts with end-of-month expiry cycle MM will have quoting obligation for any one or more strikes of SENSEX in calls and puts as specified in Obligations—Spread & Size | SENSEX Options contracts with end-of-month expiry cycle as per table 1 | | | | | | | | | | | | | | |
| Clause 8 | <ul style="list-style-type: none"> Launch—1st February, 2012 The programme shall run till average trading volume on the Exchange, during the last 60 trading days, reaches 1% of market capitalization of the underlying, or six months from introduction of the scheme, whichever is earlier. | | | | | | | | | | | | | | | |

Table 1—Trading Volume Based Cash Incentives

| Moneyness (Call & Put) [§] | Market Makers Incentive Rate (Rs. per Cr.) | | | | General Market Participants Incentive Rate (Rs. per Cr.) | | | |
|--|---|------|--------|------|---|------|--------|------|
| | Passive | | Active | | Passive | | Active | |
| | Buy | Sell | Buy | Sell | Buy | Sell | Buy | Sell |
| All remaining ITMs | NA | NA | NA | NA | 200 | 200 | 200 | 200 |
| ITM 2 | 200 | 400 | 200 | 200 | 200 | 200 | 200 | 200 |
| ITM 1 | 200 | 400 | 200 | 200 | 200 | 200 | 200 | 200 |
| ATM | 200 | 400 | 200 | 200 | 200 | 200 | 200 | 200 |
| OTM 1 | 175 | 350 | 175 | 175 | 175 | 175 | 175 | 175 |
| OTM 2 | 150 | 300 | 150 | 150 | 150 | 150 | 150 | 150 |
| OTM 3 | 125 | 250 | 125 | 125 | 125 | 125 | 125 | 125 |
| OTM 4 | 100 | 200 | 100 | 100 | 100 | 100 | 100 | 100 |
| OTM 5 | NA | NA | NA | NA | 75 | 75 | 75 | 75 |
| OTM 6 | NA | NA | NA | NA | 50 | 50 | 50 | 50 |
| OTM 7 | NA | NA | NA | NA | 25 | 25 | 25 | 25 |
| OTM 8 | NA | NA | NA | NA | 10 | 10 | 10 | 10 |
| All remaining OTMs | NA | NA | NA | NA | 0 | 0 | 0 | 0 |

Table 2—Level 1 Quote Obligations

| Spread Specification for SENSEX Options | |
|---|--|
| Bid Prices of Premium (Rs.) | Maximum Spread (Rs.) (Current Month Contract) |
| 0–10 | 0.50 |
| 10–50 | 1.00 |
| 50–100 | 2.00 |
| 100–250 | 4.00 |
| 250–500 | 6.00 |
| 500–750 | 9.00 |
| >750 | 12.00 |
| Minimum quantity of contracts | 2 |

Table 3—Level 2 Quote Obligations

| Spread Specification for SENSEX Options | | | | |
|---|---|-------------------------------------|--|---------------------------------|
| Moneyness (Call & Put) [§] | Maximum Permissible Spread (Rs.) (Current Month Contract) | Minimum quantity of contracts | Quote Based Incen- tive Rate (Level 2) (Rs.) | Incentive pool for Strike |
| ITM2 | Rs. 3.00 | 20 | 45,000 | 5,70,000 |
| ITM1 | Rs. 2.50 | 20 | 40,000 | 5,00,000 |
| ATM | Rs. 2.00 | 20 | 40,000 | 5,00,000 |
| OTM1 | Rs. 1.50 | 20 | 30,000 | 3,80,000 |
| OTM2 | Rs. 1.00 | 20 | 20,000 | 2,50,000 |
| OTM3 | Rs. 0.50 | 20 | 15,000 | 1,80,000 |
| OTM4 | Rs. 0.25 | 20 | 10,000 | 1,20,000 |
| Total | | | 2,00,000 | 25,00,000 |

[§] ITM, ATM and OTM strike prices on which Level 2 Quote Obligations shall have to be maintained on a given trading day shall be published by the Exchange on daily basis.

Registration Form for Market Maker in LEIPS-III

(Please print the form on next page on the official stationary of the member
and submit it to your relationship manager)

To,
Business Development Department,
BSE Ltd,
P.J Towers, Dalal Street,
Mumbai 400001, India
Fax: (022) 2272 3001

Registration in LEIPS-III as Market Maker

1. We _____(name of the member / Clearing Number) are registering as 'Market Maker' (MM) for market making in Options on SENSEX in accordance to the terms and conditions stated in the LEIPS-III – Terms and Conditions.
2. We are aware that our enrollment as a MM shall be subject to fulfillment of all the Eligibility conditions as given in Clause 3 of LEIPS-III – Terms and Conditions.
3. As a MM, we will fulfill all obligations as given in Clause 2 of LEIPS-III – Terms and Conditions.
4. At present, we have registered ourselves in LEIPS programme in capacity of— General Market Participant (GMP)/Not registered yet.
5. We will abide by the letter and spirit of this LEIPS-III 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 any member ineligible for further participation in the programme if the member engages in activities that are detrimental to the development of the market.
6. 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.
7. Listed below are our service providers:
Front Office Vendor: _____
Back Office Vendor: _____
8. Listed are contact details of designated person from our organization for all derivatives related transactions:
Name: _____
Designation: _____
Mobile: _____
Phone: _____
Email: _____

Name & Position (of Designated Person)

(Signature / Stamp of the company)

Place, Date

Phone / Fax/Email Id

Registration Form for General Market Participant (GMP)

(Please print the form on next page on the official stationary (letter head) of the member
and submit it to your relationship manager)

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

Registration as General Market Participant (GMP)

1. We _____(name of the member / Clearing Number) would like to register in LEIPS programme as a General Market Participant.
2. We have read and understood the details of the LEIPS programme.
3. We are aware that we have to follow a separate registration process if we are interested to participate in LEIPS programme as a Market Maker.
4. We are aware that BSE reserves the right to render any member ineligible for further participation in the programme if the member engages in activities that are detrimental to the development of the market.
5. We understand that BSE has the right to terminate or amend the programme or expand one or more of the conditions laid down in their 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 below are the contact details of the designated person from our organization for all derivatives related transactions:
Name: _____
Designation: _____
Mobile: _____
Phone: _____
Email: _____

Name Position (of Designated Person)

(Signature / Stamp of the company)

Place, Date

Phone / Fax/ Email Id