

## **LEIPS-III**

*(Effective from 2nd May 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 third programme in the series LEIPS-III** was launched on 1<sup>st</sup> February 2012. This programme focuses on Options contracts in SENSEX underlying.

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 2<sup>nd</sup> May 2012, the Exchange proposes following key amendments in terms and conditions of LEIPS-III programme—**

- Relaxation in quoting obligation for Level 2—Quote Based Obligation for Market Makers.
- Revision in spread and size specification for Level 2—Quote Based Obligation from existing absolute spreads for each moneyness to spreads expressed as a percentage of the bid price.
- Introduction of additional incentive for fulfilling Level 2—Quote Based Obligation in all 14 market making contracts.
- Introduction of Level3—Quote Based Obligation including 3 layered, 2 way quotes in all 14 market making contracts.

**The amended programme starts from 2<sup>nd</sup> May 2012 and details are available 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.

# LEIPS-III – Terms and Conditions

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.** 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		
<b>Clause 1 – Incentives / Benefits</b>	<b>Trading Volume<sup>†</sup> Based Cash Incentive</b>	Market Maker (MM) shall be paid incentives on notional turnover at moneyness strikewise rates as per Table 1 overleaf		General Market Participant shall be paid incentives on notional turnover at moneyness strikewise rates as per Table 1 overleaf	
	<b>Quoting Based Cash Incentive</b>	<ul style="list-style-type: none"> <li>Based on fulfillment of Level 2 Quote Obligations, qualifying MMs shall be paid incentives at Moneyness Strike-wise rates (refer to Annexure 1 overleaf).</li> <li>Based on fulfillment of Level 3 Quote Obligations, qualifying MMs shall be paid incentives at Rs. 2 Lakhs per day per MM (refer to Annexure 2 overleaf).</li> <li>Above incentives will be paid until payout reaches a combined pool of Rs. 25 Lakhs, Qualifying MMs to be paid incentives on pro-rata basis thereafter.</li> </ul>		Not Applicable	
	<b>Open Interest<sup>#†</sup> Cash Incentive</b>	Based on daily Exchange OI of SENSEX Options. <sup>¥</sup> Only short option positions will be eligible for OI incentive. <ul style="list-style-type: none"> <li>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<sup>¥</sup> for the day.</li> <li>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.</li> </ul>			
	<b>1st Trade Incentive for customers</b>	<ul style="list-style-type: none"> <li>Rs. 100 /- to be paid only one time for each registered customer trading for the first time in BSE F&amp;O segment under all LEIPS schemes</li> <li>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.</li> <li>Up to first 5000 successfully registered customers by member in UCC system to be eligible to receive incentive.</li> </ul>			
<b>Lower Transaction Fee</b>	<b>Options (Rs. / Cr. Premium)</b>				
	Passive		Active		
	0		50		
<b>Quote Obligation</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>		
	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 Annexure 1 overleaf	Provide 2-way continuous quote during regular trading hours for 85% of trading time as per Annexure 2 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)					
<b>Spread &amp; Size</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>		
	2-way quote in any one or more market making contract series <sup>‡</sup> as per quote obligations specified in Table 2	2 way quote in any one or more market making contract series <sup>‡</sup> as per quote obligations specified in Annexure 1	3 layered, 2 way quotes in all 14 market making contract series <sup>‡</sup> as per quote obligations specified in Annexure 2		
	No Obligations				
<b>Roll Period (5 days prior to expiry)</b>	Quote obligations for the current month contracts shall also be applicable to the next month contracts.	No Roll period obligation	No Roll period obligation		
<b>After the daily volume cap is breached</b>	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 Annexure 1 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 Annexure 2 overleaf even after the volume incentive cap is breached		
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<sup>†</sup> Incentives are payable only for current, near and far month expiration on monthly options contracts on eligible underlying

<sup>#</sup> Open Interest–Notional volume of options contracts that are not closed or delivered at the end of a particular day.

<sup>‡</sup> Market making contract series shall be published by the exchange on a daily basis

	Market Makers	General Market Participants																
Clause 3	<ul style="list-style-type: none"> <li>MMs who have registered for SENSEX Options in LEIPS-II programme shall automatically qualify as a MM in LEIPS-III programme</li> <li>Members who have not registered in LEIPS-II programme as MM have to register using a simple registration process</li> <li>Other Criteria—                             <ul style="list-style-type: none"> <li>Net worth of Rs. 1 Cr. (~ USD 0.20 Million)</li> <li>No serious disciplinary action against the member in the last 1 year</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Active trading members of F&amp;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.</li> <li>Members who have not registered in LEIPS-II programme as GMP have to register with the Exchange.</li> </ul>																
Clause 4	<ul style="list-style-type: none"> <li>Eligibility for MM incentive payments shall be determined on daily basis based on fulfillment of the MM's obligation during the day</li> <li>In case of non-fulfillment of obligations for a specific day, MM's incentive payments shall be at GMP rates</li> <li>Exchange provides online system (<a href="https://leipsmm.bseindia.com">https://leipsmm.bseindia.com</a>) to MMs to view their quoting obligations (MM presence) as well as incentive payouts based on their trading activity</li> <li>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</li> </ul>	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><b>Daily Caps</b>— Cash volume incentives shall be paid upto a maximum of <b>Rs. 5100 Cr. in Options (Notional volume)</b> 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><b>Payout per trade</b> 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							
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Clause 7	<ul style="list-style-type: none"> <li>SENSEX Options contracts as per Table 1</li> </ul>	SENSEX Options contracts <b>as per Table 1</b>																
Clause 8	<ul style="list-style-type: none"> <li>Launch—1st February, 2012</li> <li>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.</li> </ul>																	

Table 1—Trading Volume Based Cash Incentive

Moneyness <sup>§</sup> (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

## Level 1 Quote Obligations

## Spread Specification for SENSEX Options

Table 2	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	

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

§ ITM, ATM and OTM strike prices on which Level 1 Quote Obligations shall have to be maintained on a given trading day shall be published by the Exchange on daily basis.

**Annexure 1: Level 2—Quote Based Obligation and Incentive**

- MMs shall have the flexibility to choose a spread – size specification from those listed in Table 3 below:

**Table 3 - Level 2—Quote Based Incentive: Spread & Size Specification**

Level 2: Spread Size Specification			
	Option 1	Option 2	Option 3
<b>Maximum Spread<sup>u</sup> (as a % of Bid Price)</b>	Higher of 1 % or Rs. 0.50	Higher of 1.25% or Rs. 0.50	Higher of 1.5% or Rs. 0.50
<b>Minimum Lots (no. of contracts)</b>	20	30	40

<sup>u</sup>In any circumstances the maximum spread cannot be greater than Rs. 5.00

- MMs can interchangeably use the above spread—size specifications on an intra-day basis. i.e. MMs have the flexibility to choose different spread—size specifications at different points in time.
- Illustration:**

Case 1: MM ‘A’ maintained 2 ways quote in the following manner (no time overlap amongst the options):

- ◆ At a spread of 1% of bid price with 20 lots between 9.15 am. to 12.00 pm
- ◆ At a spread of 1.25% of bid price with 30 lots between 12.00 pm. to 1.00 pm.
- ◆ At a spread of 1.5% of bid price with 40 lots between 1.00 pm. to 3.00 pm.

The Level 2 presence accounted for this member will from 9.15 am to 3.00 pm.

Case 2: MM ‘B’ maintained 2 ways quote in the following manner (time overlap amongst the options):

- ◆ At a spread of 1% of bid price with 20 lots between 9.15 am. to 12.00 pm.
- ◆ At a spread of 1.25% of bid price with 30 lots between 10.00 am. to 12.00 pm.
- ◆ At a spread of 1.5% of bid price with 40 lots between 1.00 pm. to 3.00 pm.

The Level 2 presence accounted for this member will from 9.15 am. to 12.00 pm. and then from 1.00 pm. to 3.00 pm.

- Incentive payable to MMs upon fulfillment of Level 2—Quote Based Obligation shall be as per table 4 below:

**Table 4 - Level 2—Quote Based Incentives**

Level 2 Quote Obligation Incentive						
Table 4	Money <sup>ness</sup> (Call and Put)	Quote Based Cash Incentive (Level 2) Rate per MM for CALL (Rs.)	Quote Based Cash Incentive (Level 2) Rate per MM for PUT (Rs.)	Additional Incentive if Quoting in pairs	Total (Rs)	Quote Based Cash Incentive (Level 2) pool across all eligible MMs (Rs.)
	ITM 2	20,000	20,000	5,000	45,000	5,70,000
	ITM 1	18,000	18,000	4,000	40,000	5,00,000
	ATM	18,000	18,000	4,000	40,000	5,00,000
	OTM 1	13,500	13,500	3,000	30,000	3,80,000
	OTM 2	9,000	9,000	2,000	20,000	2,50,000
	OTM 3	6,750	6,750	1,500	15,000	1,80,000
	OTM 4	4,500	4,500	1,000	10,000	1,20,000
	<b>Total</b>	<b>89,750</b>	<b>89,750</b>	<b>20,500</b>	<b>2,00,000</b>	<b>25,00,000<sup>#</sup></b>
<b>Additional Incentive for fulfilling quoting obligations in all the above strikes</b>				<b>1,00,000</b>		

<sup>#</sup> Quote Based Incentives for Level 2 and Level 3 shall be distributed from the existing daily pool of Rs. 25 Lakhs. i.e. if the total of Level 2 and Level 3 Quote Based Incentives crosses Rs. 25 Lakhs, incentives shall be paid proportionately.

<sup>§</sup> 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.

**Annexure 2: Level 3—Quote Based Obligation and Incentive**

- Market maker shall be paid Rs.2,00,000 daily incentive in addition to level 2 quote incentive if he maintains 3 layered 2—way quotes in all the 14 strikes as published by the Exchange on the SENSEX Options.
- MMs shall have the flexibility to choose a 3 layered quote spread – size specification from the options listed in table 5 below:

**Table 5 - Spread & Size Specification**

Level 3: Spread—Size Specification			
	Option 1	Option 2	Option 3
<b>Layer 1</b>	Higher of 1% of Bid Price <sup>ψ</sup> or Rs. 0.50 and min. lot of 20 contracts	Higher of 1.25% of Bid Price <sup>ψ</sup> or Rs. 0.50 and min. lot of 30 contracts	Higher of 1.5% of Bid Price <sup>ψ</sup> or Rs. 0.50 and min. lot of 40 contracts
<b>Layer 2</b>	Bid and ask price at a max. difference of Rs. 0.50 from respective bid and ask price of layer 1 and a min. lot of 15 contracts	Bid and ask quotes at a max. difference of Rs. 0.50 from respective bid and ask price of layer 1 and a min. lot of 25 contracts	Bid and ask quotes at a max. difference of Rs. 0.50 from respective bid and ask price of layer 1 and a min. lot of 30 contracts
<b>Layer 3</b>	Bid and ask price at a max. difference of Rs. 1.00 from respective bid and ask price of layer 1 and a min. lot of 10 contracts	Bid and ask quotes at a max. difference of Rs. 1.00 from respective bid and ask price of layer 1 and a min. lot of 20 contracts	Bid and ask quotes at a max. difference of Rs. 1.00 from respective bid and ask price of layer 1 and a min. lot of 25 contracts

<sup>ψ</sup>In any circumstances the maximum spread cannot be greater than Rs. 5.00

- Illustration:**

- ◆ Case 1: ATM Strike with layer 1 at a spread of 1% of bid price & default contract size of 20

Layer	Qty	Bid Price	Offer Price	Qty
Layer 1	20	400.00	404.00	20
Layer 2	15	399.50	404.50	15
Layer 3	10	399.00	405.00	10

- ◆ Case 2: ATM Strike with layer 1 at a spread of 1.25% of bid price & default contract size of 30

Layer	Qty	Bid Price	Offer Price	Qty
Layer 1	30	400.00	405.00	30
Layer 2	25	399.50	405.50	25
Layer 3	20	399.00	406.00	20

- ◆ Case 3: ATM Strike with layer 1 at a spread of 1.5% of bid price & default contract size of 40

Layer	Qty	Bid Price	Offer Price	Qty
Layer 1	40	400.00	406.00	40
Layer 2	30	399.50	406.50	30
Layer 3	25	399.00	407.00	25

- ◆ Case 4: ATM Strike with layer 1 at a spread of 1% of bid price & default contract size of 20

Layer	Qty	Bid Price	Offer Price	Qty
Layer 1	20	400.00	404.00	20
Layer 2	15	400.00	404.50	15
Layer 3	10	400.00	405.00	10

- Similar to Level 2—Quote Based Obligations, MMs can interchangeably use the any of the above 3—layered spread—size specifications on an intra-day basis. i.e. MMs have the flexibility to choose different 3—layered spread—size specifications at different points in time.
- Note: Quote Based Incentives for Level 2 and Level 3 shall be distributed from the existing daily pool of Rs. 25 Lakhs (refer Table 4). i.e if the total of Level 2 and Level 3 Quote Based Incentives crosses Rs. 25 Lakhs, incentives shall be paid proportionately.**

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