

## **LEIPS-II**

*(Amendments effective from 1st 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 28<sup>th</sup> September 2011 with a view to get the members ready for the actual programme. LEIPS-I (BETA) successfully concluded on 25<sup>th</sup> October 2011.

**The second programme in the series-LEIPS-II** was launched on 26<sup>th</sup> 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.

Active trading members of Futures & Options segment of the Exchange can follow a simple process to register themselves for this programme as a Market Maker (MM) or as a General Market Participant (GMP).

Under the programme, MMs have a continuous quoting obligation with specified size and spread in Futures and Options contracts on their chosen underlying(s). The programme offers 3 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 for average daily OI to MMs and GMPs
3. Lower transaction fees for all active trading members

LEIPS-II programme shall remain in force till 25<sup>th</sup> April 2012 i. e. 6 months.

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 announced series of amendments from time to time, with a view to infuse greater impetus and focused participation from the market.**

**With effect from 1st February 2012, the Exchange proposes following key revisions in terms and conditions of LEIPS II programme -**

- **Only Futures contracts shall be eligible for LEIPS - II incentive programme (SENSEX, its underlying 30 stocks, BANKEX)**
- **OI based cash incentives to be paid on daily basis**
- **Incentive payment on pro-rata basis instead of 'first come first serve' basis**
- **Daily Volume Cap to be Rs. 1200 Cr. (Rs. 3.2 Cr per time period) in Futures**
- **Additional incentives to MM on their passive volume done in non-incentive period for up to Rs.600 Cr. (Rs.1.6 Cr per time period)**

**The amended programme starts from 1st February 2012 and details are given in subsequent pages.**

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

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Liquidity Enhancement Incentive Programme (LEIPS-II) is launched by BSE with the goal of creating lasting, self-sustaining liquidity in the BSE F&O segment. **LEIPS-II currently focuses on Futures on SENSEX, BANKEX, its underlying 30 stocks.** The programme incentivizes both MMs and GMPs by payment of cash for participating in the programme as per prescribed terms and conditions.

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	
<b>Trading Volume<sup>†</sup> Based Cash Incentive Pro-rata</b>	2,300	2,300	1,100	1,100	1,100	1,100	1,100	1,100	
<b>Open Interest<sup>#†</sup> Cash Incentive</b>	Based on daily average OI of futures . Payout structure - <ul style="list-style-type: none"> <li>Till Exchange OI of Rs. 1000 Cr (average over a month), Rs. 250 per Cr. of daily OI</li> <li>If Exchange OI exceeds Rs. 1000 Cr (average over a month), Pool of Rs. 2.5 Lakhs per day to be apportioned according to daily OI</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 Futures segment.</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>MM Passive Volume Incentive Pro-rata basis</b>	<ul style="list-style-type: none"> <li>MM to be paid for passive volume transacted in non-incentive period (i.e. after the 1 min volume cap is breached in every time period).</li> <li>Incentives paid for total daily MM passive volume of upto Rs.600 Cr in non-incentive period.</li> <li>MM passive volume cap of Rs. 600 Cr to be divided into 375 time period caps of Rs.1.6 Cr each.</li> <li>Rs.2300 per Cr to be paid on pro-rata basis for passive volume by MM in each time period</li> <li><i>Illustration: Time period = 11:00:00 am to 11:01:00 am</i>  <i>Time when 1 minute time period cap is hit = 11:00:15 am</i>  <i>Non-incentive period = 11:00:16 to 11:00:59 am</i>  <i>Passive volume by all MMs in above non-incentive period = 10 Cr.</i>  <i>MM passive volume cap = 1. 6 Cr per minute,</i>  <i>Passive volume by MM 'X' in above non-incentive period = 5 Cr,</i>  <i>Passive Volume payout to MM 'X' = [5* 1.6/10]*2300 = Rs. 1840</i></li> </ul>								
<b>Transaction Fees</b>	<b>Passive (Rs/Cr)</b>			<b>Active (Rs/Cr)</b>					
	0			50					

Clause 2 – Obligations	Quote		No Obligations
	<b>Spread &amp; Size</b>	Futures – (Current Month Contracts) <ul style="list-style-type: none"> <li>SENSEX, BANKEX - 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>	
	<b>Roll Period (5-days prior to expiry)</b>	During the roll period, quote obligations for the current month contracts shall be also be applicable to the next month's contracts.	
	<b>After the daily volume cap is breached</b>	MM shall required to quote as per size/spread obligations in Futures (as per prevailing LEIPS II programme) through out the day uniformly even after the volume incentive cap is breached.	

† Incentives are payable only for current , near and far month expiration on monthly futures 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— 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>Members have to register with the exchange to participate as a MM</li> <li>Demonstrated expertise in derivatives trading for reasonable period of time</li> <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>	Members have to register with the exchange to be eligible for the incentives
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 member 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 member 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></p> <ul style="list-style-type: none"> <li>Cash volume incentives paid upto a maximum of Rs. 1200 Cr. spread across all Futures time periods</li> <li>Volume incentive cap divided into 375 time period caps of 1 minute each</li> <li>Per Minute Volume Cap = Rs.3.2 Cr (Rs. 1200 Cr / 375 time period caps)</li> <li>Incentive to be paid on pro-rata basis on volume contributed by each member in particular time period cap</li> <li>Illustration: - Exchange turnover in 1 minute period = Rs. 5 Cr Per minute time period cap = Rs. 3.2 Cr Member Turnover = Rs. 2 Cr Incentive payout at GMP rates = <math>(3.2 * 2/5) * 1100 = Rs.1408</math></li> <li>Payouts per trade will be capped at maximum of 10 contracts for Futures</li> </ul>	
Clause 6	<ul style="list-style-type: none"> <li>Daily basis (for both MMs and GMPs) - at rate of Rs. 1,100 / Cr.</li> <li>Daily basis (for MMs) - Additional trading volume based cash incentive for fulfilling MM obligations at rate of Rs. 1,200/Cr. in Futures (passive side)</li> <li>Daily basis (for MMs) - at Rs.2300 per Cr. of passive side volume in non-incentive period</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 invoice</li> </ul>	
Clause 7	<ul style="list-style-type: none"> <li>MMs shall apply for market making in futures on one or more underlying (SENSEX and 30 underlying SENSEX stocks) as per the registration form</li> <li>The obligations / incentive payment in each underlying shall be administered separately (i.e., a member can be MM for SBI Futures and SENSEX Futures. Obligations / Payouts in SBI Futures and SENSEX Futures shall be administered separately.)</li> </ul>	SENSEX, its underlying 30 stocks, BANKEX
Clause 8	<ul style="list-style-type: none"> <li>Launch—26 th October 2011</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>	

Registration Form for Market Maker in LEIPS-II

(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-II as Market Maker

1. We \_\_\_\_\_ (name of the member / Clearing Number) are registering as 'Market Maker' (MM) in listed underlying and type (as indicated in Table 1—List of underlying for Market Making) in accordance to the terms and conditions stated in the LEIPS-II — Terms and Conditions.
2. We will fulfill 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 shall 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 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 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 are 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) 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 underlyings for Market Making (below). Your application shall be considered incomplete without this.

Table 1—List of Underlying for Market Making

	Futures
SENSEX	
BANKEX	
Bajaj Auto	
Bharti Airtel	
BHEL	
Cipla	
Coal India	
DLF	
GAIL India Ltd	
HDFC	
HDFC Bank	
Hero Honda	
Hindalco	
HUL	
ICICI Bank	
Infosys	
ITC	
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	

**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 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