

LEIPS-II

(Amendments effective from 16th December 2011)

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 has been launched on 26th October 2011. The intention 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 and 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, the MMs have a continuous quoting obligation with specified size and spread in futures and/or options contracts on their chosen underlying(s). The programme offers 3 types of incentives to market participants –

1. Trading volume based cash incentive paid on daily basis,
2. Open Interest (OI) cash incentive – paid on monthly basis for average OI during a month to ensure building of sustainable core liquidity, and
3. Lower transaction fees

LEIPS-II programme shall remain in force till 25th 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.

The Exchange reserves the right to 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 Stock 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.

On successful completion of 1st month of LEIPS-II programme, the Exchange has announced series of amendments, with a view to bring in greater impetus and focused participation from the market.

Key amendments with effect from 16th December 2011 are -

- **Daily Volume Cap to be increased to Rs. 1800 Cr. (Rs. 600 Cr per time period) in Futures and Rs. 5100 Cr (Rs. 1700 Cr of Notional volume per time period) in Options**
- **MM quote obligations restricted to current month contracts only including roll over period obligations**
- **MM payout on daily basis based on fulfillment of their obligations on daily basis instead of monthly**
- **Only SENSEX Options to be considered in LEIPS-II programme**
- **Changes in Options payout structure (basis and rates) and spread specifications**
- **Payout per trade for SENSEX Options to be capped at 40 contracts (from earlier 200 contracts)**
- **1st Trade incentive for customers**

The amended programme starts from 16th December 2011 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-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.

Liquidity Enhancement Incentive Programmes (LEIPS-II) is launched by BSE with the goal of creating lasting, self-sustaining liquidity in the BSE derivatives segment. **LEIPS-II focuses on Futures on SENSEX, BANKEX, its underlying 30 stocks and Options on SENSEX.** The programme incentivizes both MMs and GMPs by payment of cash for participating in the derivatives segment of BSE.

Clause 1 – Incentives / Benefits	Volume[†] Based Cash Incentive	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. Notional)				Options (Rs. / Cr. Notional)			
		Passive*		Active*		Passive*		Active*	
		Buy	Sell	Buy	Sell	Buy	Sell	Buy	Sell
200	400	200	200	200	200	200	200		
Open Interest*[‡] Cash Incentive	Based on average OI 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"> Till exchange OI of Rs. 5,000 Cr. (average over a month) <ul style="list-style-type: none"> Rs. 5,000/Cr. of OI average over a month If exchange OI exceed Rs. 5,000 Cr. (average over a month) <ul style="list-style-type: none"> Pool of Rs. 2 Cr. apportioned according to average OI 								
1st Trade Incentive for customers <small>(with effect from 5th December 2011)</small>	<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. 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	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 for 75% of trading time . The only exceptions will be due to technical reasons and fast market conditions. 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"> Current Month <ul style="list-style-type: none"> 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. 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. SENSEX Options— <ul style="list-style-type: none"> Current Month <ul style="list-style-type: none"> 2 contracts of 2-sided quote for both puts and calls for each security / strike with the specified quote spread (refer table 1 overleaf) Required to quote at ATM (or near-the-money) , 2 ITM and 4 OTM strikes 	
	Roll (5-days prior to expiry)	<ul style="list-style-type: none"> 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, 1 ITM and 2 OTM strikes only 	
	After the daily volume ceilings are hit	<ul style="list-style-type: none"> Current Month 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, BANKEX Futures, Rs 0.50 or 50 bps for Stock Futures as described above and as per Table 1—Options Spread Specification for SENSEX Options)	

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

* Active / passive—In any trade, the order 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"> Firms have to register with the exchange to participate as a MM Demonstrated expertise in derivatives trading for reasonable period of time Net worth of Rs. 1 Cr. (US\$ 0.22 Million) No serious disciplinary action against the member in the last year 	Firms have to register with the exchange to be eligible for the incentives																				
Clause 4	<ul style="list-style-type: none"> Eligibility for MM incentive payments will 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 will be at GMP rates Exchange provides online system (LEIPSMM) to MMs to view their quoting obligations (MM presence) as well as incentive payouts based their trading activity. 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. 	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																				
Clause 5	<p>Daily Caps— Cash volume incentives paid upto a maximum of Rs. 1800 Cr. in Futures and Rs. 5100 Cr. in Options (Notional volume) as follows—</p> <table border="1"> <thead> <tr> <th>Time Period</th> <th>Timing</th> <th>Time Period wise Cap for Futures Trading</th> <th>Time Period wise Cap for Options Trading (Notional Volume)</th> </tr> </thead> <tbody> <tr> <td>Time Period 1</td> <td>9:15 am to 11:30 am</td> <td>Rs. 600 Crore</td> <td>Rs. 1,700 Crore</td> </tr> <tr> <td>Time Period 2</td> <td>11:30 am to 01:30 pm</td> <td>Rs. 600 Crore</td> <td>Rs. 1,700 Crore</td> </tr> <tr> <td>Time Period 3</td> <td>01:30 pm to 03:30 pm</td> <td>Rs. 600 Crore</td> <td>Rs. 1,700 Crore</td> </tr> <tr> <td>Total</td> <td></td> <td>Rs. 1,800 Crore</td> <td>Rs. 5,100 Crore</td> </tr> </tbody> </table> <p>Payouts per trade will be capped at maximum of</p> <ul style="list-style-type: none"> 10 contracts for Futures 40 contracts for Options (reduced from 200 contracts) <p>Minimum payout— 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</p>		Time Period	Timing	Time Period wise Cap for Futures Trading	Time Period wise Cap for Options Trading (Notional Volume)	Time Period 1	9:15 am to 11:30 am	Rs. 600 Crore	Rs. 1,700 Crore	Time Period 2	11:30 am to 01:30 pm	Rs. 600 Crore	Rs. 1,700 Crore	Time Period 3	01:30 pm to 03:30 pm	Rs. 600 Crore	Rs. 1,700 Crore	Total		Rs. 1,800 Crore	Rs. 5,100 Crore
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Clause 6	<ul style="list-style-type: none"> Daily Basis (for both MMs and GMPs) - at rate of Rs. 1,100 / Cr. of Futures volume and Rs. 200/ Cr. of Options Notional volume Daily Basis (for MMs) - Additional volume based cash incentive for fulfilling MM obligations at rate of Rs. 1,200/Cr. of Futures (passive side) and Rs. 200/Cr. of Options (passive sell side) Open interest cash incentives within 7 business days from the end of the calendar month All cash payouts will be paid after TDS deductions. TDS certificate will be issued on quarterly basis Service Tax related to incentive payouts will be paid to the members upon submission of invoices 																					
Clause 7	<ul style="list-style-type: none"> MMs will separately apply for market making in futures on one or more security (SENSEX and 30 individual SENSEX stocks) and in SENSEX Options. MM for options will have quoting obligation for all the strikes of underlying in call and puts as specified in Obligations—Spread & Size. The obligations / incentive payment in each underlying will be administered separately (i.e., a member can be MM for SBI Futures and SENSEX Option. Obligations / Payouts in SBI Futures and SENSEX Options will be administered separately.) 	All																				
Clause 8	<ul style="list-style-type: none"> Launch—26 th October 2011 The programme will 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	Options 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	

Registration Form for Market Maker in LEIPS-II

(Please print the form on next page on the official stationary of the member.
Submit it to your relationship manager or one of the contacts listed in Annexure III)

To,

Business Development Department,
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.) *(with effect from 16th December 2011)*

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
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	
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	

** Jaiprakash Associates will be replaced by GAIL India Ltd. in SENSEX with effect from 9th January 2012*

	Options
SENSEX	