

LEIPS-III

(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 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 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. One such landmark policy change is the change in expiry cycle for derivatives contracts from mid-month to end-of-month expiry with effect from February 2012 contracts and onwards.

On this background, the Exchange has felt the need to run a separate liquidity enhancement programme for its Options sub-segment to infuse greater impetus and focused participation in developing the Options market at BSE.

In view of this, the Exchange is launching **the third programme in the series viz. LEIPS-III** on 01 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 for average daily OI 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.

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	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
	Quoting Based Cash Incentive	Based on fulfillment of Level 2 Quote Obligations, qualifying MMs shall be paid incentives at Rs. 2 Lakhs per day per MM till total of such payout reaches a pool of Rs. 25 Lakhs. Qualifying MMs to be paid incentives on pro-rata basis thereafter.				Not Applicable			
	Open Interest^{#†} Cash Incentive	Based on daily average OI of SENSEX Options. Only short option positions will be eligible for OI incentive. <ul style="list-style-type: none"> Till Exchange OI of Rs. 4000 Cr. (average over a month) <ul style="list-style-type: none"> Rs. 250 per Cr. of daily OI If Exchange OI exceeds Rs. 4000 Cr. (average over a month) <ul style="list-style-type: none"> Pool of Rs. 10 Lakhs, apportioned according to average OI 							
	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 1 overleaf		Provide 2-way continuous quote during regular trading hours for 95% of trading time as per Table 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)							
	Spread & Size	SENSEX Options— <ul style="list-style-type: none"> 2-way quote on both puts and calls for each current month strikes Quote in ATM (or near-the-money) , 2 ITM and 4 OTM strikes Quote with the specified quote spread <ul style="list-style-type: none"> Refer Table 1 overleaf for Level 1 Quote Obligations Refer Table 2 overleaf for Level 2 Quote Obligations 							
	Roll Period (5-days prior to expiry)	During the roll period, quote obligations for the current month contracts shall also be applicable to the next month options contracts. MM's quoting obligations for current month options contracts shall be applicable to ATM and 2 OTM strikes only. MM shall be required to demonstrate presence (instead of quote obligations) in 1 ITM strike of current month contracts.							
After the daily volume cap is breached	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 even after the volume incentive cap is breached		Provide 2-way continuous quote during regular trading hours for 95% of trading time as per Table 2 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>Illustration:- Exchange turnover in 1 minute period = Rs. 20 Cr Per minute time period cap = Rs. 13.6 Cr Member 'A' Turnover = 10 Cr Incentive payout to member 'A' at GMP rates = $(10 \times 13.6 / 20) \times 200 = \text{Rs.}1360$</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					
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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 at rate of Rs. 200/ Cr. of Options Notional volume</td> </tr> <tr> <td>MMs fulfilling Level 1 Quote Obligations</td> <td>Additional volume based cash incentive for fulfilling Level 1 Quote Obligations at rate of Rs. 200/Cr. of Options Notional Volume (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.</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 at rate of Rs. 200/ Cr. of Options Notional volume	MMs fulfilling Level 1 Quote Obligations	Additional volume based cash incentive for fulfilling Level 1 Quote Obligations at rate of Rs. 200/Cr. of Options Notional Volume (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.	OI based Cash Incentive	MM, GMP	Based on Daily Average OI
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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 all strikes of SENSEX in calls and puts as specified in Obligations—Spread & Size 	SENSEX Options contracts with end-of-month expiry cycle														
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. 															

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

Level 2 Quote Obligations	
Spread Specification for SENSEX Options	
Strikes	Maximum Permissible Spread (Rs.) (Current Month Contract)
ITM2	Rs. 3.00
ITM1	Rs. 2.50
ATM	Rs. 2.00
OTM1	Rs. 1.50
OTM2	Rs. 1.00
OTM3	Rs. 0.50
OTM4	Rs. 0.25
Minimum quantity of contracts	20

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