
Circular No.: ICEX/BD/2019/492

Date: September 13, 2019

Dept.: Business Development

Subject: Liquidity Enhancement Scheme at ICEX

In terms of the provisions of the Bye-laws, Rules and Regulations of the Exchange; the Members of the Exchange are hereby informed as under:

Indian Commodity Exchange Ltd. announces the Liquidity Enhancement Scheme (LES) for providing liquidity and depth in select commodity futures contract. The scheme is designed in compliance with the guidelines pursuant to the SEBI circulars ref. no. CIR/MRD/DP/14/2014 dated April 23, 2014, SEBI/HO/CDMRD/DMP/CIR/P/2018/55 dated March 26, 2018 and SEBI/HO/CDMRD/DNPMP/CIR/P/2019/84 dated July 26, 2019.

The Exchange invites its member(s) and its constituents for empanelment as Exchange designated market-maker(s) [Herein referred as “MM”] so as to provide two way quotes in the identified commodity futures contract(s). Such applicant(s) should have proven experience, adequate resources, and fair knowledge of the commodity fundamentals and understanding of the financial market principles and/or relevant regulations.

The interested applicants may submit their application and bids (Technical and Financial) through e-mail at les@icexindia.com in the format specified (as per **Annexure - II**) on or before **September 20, 2019**. The Exchange shall award the contract to the lowest bidder from amongst the successful technical bidders. In case of any dispute, the decision of the Exchange shall be final and binding.

The Liquidity Enhancement Scheme [Hereinafter called as “**The Scheme**”] which includes the commodities covered under the scheme, terms and conditions for performance and incentives payable are attached as **Annexure-I** for the reference.

The empaneled MMs shall be intimated by the Exchange at the appropriate time for the launch of LES under intimation to the market.

The Exchange shall monitor the performance of the scheme and reserves the right to amend / discontinue the same at any time with an advance notice of 15 days.

Members and their constituents are requested to take note of the same.

For and on behalf of
Indian Commodity Exchange Limited

Utkarsh Sharma
Deputy Vice President – Business Development

Kindly contact customer support team on 022-40381547/53/62/69 or send an e-mail at customercare@icexindia.com for any clarification.



Liquidity Enhancement Scheme

Background:

A market maker or liquidity provider is a firm/company or an individual that quotes both a buy and a sell price in a financial instrument or commodity at prices it displays in its Exchange's trading system.

The most common type of market maker is a brokerage house that provides purchase and sale solutions for investors in an effort to keep financial markets liquid.

Under the regulatory environment, the market maker has to comply the conditions/rules/regulations of the regulatory guidelines while continuously quoting prices at which it will buy (or bid for) and sell (or ask for) securities. Market maker must also quote the quantity in which he is willing to trade, and the frequency of time he will quote at the Best Bid and Best Offer (BBO) prices. Market makers must stick to these parameters at all times, during the market outlooks. When markets become erratic or volatile, market makers must remain disciplined in order to continue facilitating smooth transactions.

For a healthy growth of new/fledging securities, SEBI has felt that there is a need for allowing Exchanges to launch Liquidity Enhancement Scheme (LES) and accordingly issued various guidelines to this effect from time to time.

The Scheme:

Indian Commodity Exchange Ltd. introduces the Liquidity Enhancement Scheme (LES) for providing liquidity and depth in select commodity futures contract. The scheme is designed in compliance with the guidelines pursuant to the SEBI circulars, CIR/MRD/DP/14/2014 dated April 23, 2014, SEBI/HO/CDMRD/DMP/CIR/P/2018/55 dated March 26, 2018 and SEBI/HO/CDMRD/DNPMP/CIR/P/2019/84 dated July 26, 2019.

The Exchange invites its member(s) and its constituents for empanelment as Exchange designated market-maker(s) so as to provide two way quotes in the identified commodity futures contract(s). Such applicant(s) should have proven experience, adequate resources, and fair knowledge of the commodity fundamentals and understanding of the financial market principles and/or relevant regulations.

- A. **Deliverables:** Market-maker has to ensure and maintain 2-way continuous quotes at a specified spread and quantity in the contracts assigned to them for the entire duration of trading on all trading days.

Illustrations:

An ideal scenario for trade is to have price and quantity available in market with minimum spread.

Bid Qty (Lots)	Bid Price Level	Ask Qty (Lots)	Ask Price Level	Spread (in multiple of tick size)
Level 1 (Touch line)Q1BP1	BP1	Q1AP1	AP1	AP1-BP1= 1 Tick
Level 2 Q2BP2	BP2	Q2AP2	AP2	AP2-BP2= 3 Tick
Level 3 Q3BP3	BP3	Q3AP3	AP3	AP3-BP3= 5 Tick
Level 4 Q4BP4	BP4	Q4AP4	AP4	AP4-BP4= 7 Tick
Level 5 Q5BP5	BP5	Q5AP5	AP5	AP5-BP5= 9 Tick

- ❖ *Q stands for the No. of minimum Lot/lots*
- ❖ *BP stands for the bid price*
- ❖ *AP stands for the ask price*
- ❖ *Touchline: best buy and best sell*

This scheme is designed with an aim to create genuine and sustainable market depth thereby allowing smooth entry and exit channel to the market participants with possible minimum impact cost. The framework of the scheme is structured in such a way that the market maker will be incentivized to maintain the order-book in such a fashion that it encourages the other participants to participate in the contract. The scheme is structured on the premises of objective, transparent, non-discretionary and non-discriminatory mechanism to meet out the purpose as stated above.

B. OBLIGATIONS OF MARKET MAKER (MM)

To maintain 2-way continuous quotes (from Level 1 to Level 5) in a specified price band along with Minimum lots and maximum tick difference on both sides of the market order book (bid and ask) as mentioned in the table given below:

Commodity	Minimum Lot (Base Lot)	L1 Max Tick Difference (A1-B1)	L5 Max Tick Difference (A5-B5)
Diamond	100	6	30
Steel	1	4	34
Rubber	1	15	105
Isabgul	1	4	44
PB1121	1	15	135
Pepper	1	6	46

- 1) The first level of quote (A1, B1) and fifth level quote (A5, B5) should not be more than the ticks as defined above. The market maker has to ensure that such condition is complied with for 80 % of the trading hour on a weekly basis and also minimum commitment of 75% of time on daily basis so as to be eligible for the incentive in that contract for that week.
- 2) Roll over: On the preceding trading day of the commencement of tender & delivery day or period leading to expiry of the current contract, the market maker has to ensure smooth rollover by providing liquidity in concurrent contracts (expiry and next contract).

C. Eligibility Criteria:

- 1) Exchange shall invite financial and technical bids from its members/constituents for the liquidity enhancement scheme. For Financial and Technical Bids, please refer Annexure II.
- 2) The MM has to give an advance notice of 15 trading days before winding off his operation so as to be eligible for a pay-out.

D. Payout

(i) Fixed Payout based on time and spread criterion:

- 1) The appointed market maker shall receive 100 % of the payout as quoted by him for maintaining order book as mentioned above in table. However, the MM is eligible for a higher payout based on finer tick and as per the formula given below.
- 2) The MM has to ensure that the quote is available as defined above for 80% of the time on weekly basis and 75% of time on daily basis. The MM has to maintain the spread between the bid and ask as mentioned in the table above for the commodity-contract assigned to him.
- 3) In case a MM doesn't maintain / fails to maintain the daily criteria of 75%, then Exchange will deduct the fixed payout portion for that day but his score (as mentioned in the table below) of that day will be accounted while doing weekly computation.
- 4) The average daily turnover in last 60 trading days of all the contracts of that commodity taken together shall be considered as base volume. Through better order book, the MM has to ensure incremental change in volume of trade from that base so as to be eligible for a pay-out.
- 5) The turnover criteria as defined in (4) above shall be monitored on weekly basis, i.e total volume of the week shall be compared against the base volume (daily base volume 'x' no. of trading days of the week).

(ii) Additional Payout based on better order book (finer quote) with respect to time criteria:

6) The MM has to obtain score, the average tick difference or lower as given below to be eligible for the additional payout.

Commodities	L1 Tick Difference (A1-B1)	L5 Tick Difference (A5-B5)	Minimum Lot (Base Lot)	Tick Size (Rs)	Basis Score for payout
Diamond	6	30	100	0.05	22.8
Steel	4	34	1	10	25.6
Rubber	15	105	1	1	84.6
Isabgul	4	44	1	0.05	33.6
PB1121	15	135	1	1	108.6
Pepper	6	46	1	0.05	35.6

7) The MM will be incentivized based on **the weekly average score obtained by way of better order book (finer quote) with respect to time** as per the formula given below:

Additional pay-out as percentage of fixed pay-out =

$$\text{(Basis score – weekly average score obtained)*100/Basis score}$$

Example for the purpose of calculation of additional pay-out in case of steel:

Steel	Lot	Tick Size	L1 Tick Difference (A1-B1)	L5 Tick Difference (A5-B5)
	1	Rs.10	4	34

a. With above condition, maximum average of the tick difference of the top five levels of market maker could be 25.6 as shown below.

Bid	Tick difference	Ask
27350	4	27390
27340	28	27620
27330	30	27630
27320	32	27640
27310	34	27650

Average 25.6

- b. The market maker shall have incentive to bring down this tick difference for the top five level of market order to average of 5.

Bid	Tick difference	Ask
27350	1	27360
27340	3	27370
27330	5	27380
27320	7	27390
27310	9	27400
Average	5	

If the average tick difference is above 25.6 then there will not be any payout to the market maker. However, if the average tick score is less than or equal to basis score (due to finer ticks) then the MM shall be eligible for additional pay-out over and above his fixed payout.

Additional pay-out Example

Basis Score for pay-out	Average weekly Score Obtained	Fixed Pay-out / day*	Additional Pay-out
25.6	18.5	Rs. 100	Rs. 27.73
25.6	5	Rs. 100	Rs. 80.47

* To be quoted by the MM, the figure here has been assumed for the purpose of illustration

(iii) Additional Payout based on larger lot size criteria w.r.t time criteria (except for rubber & basmati paddy):

For every 100% increase in the lot size at Level 1, from the Minimum Lot (Base Lot) as defined in table above, the MM is entitled for 10% of the fixed pay-out as additional payout.

Example as in case of Diamond

Bid/Ask Lot size for level 1	Lot Size	Additional Pay-out
Base Lot	100	0%
Increased Lot Size	200	10%
Increased Lot Size	300	20%
Increased Lot Size	500	40%
Increased Lot Size	1000	90%
Increased Lot Size	2000	190%
Increased Lot Size	3000	290%

(iv) Variable Payout for Statutory cost and other charges incidental to volume.

Commodities	Rs. Per Crore
Diamond	864/- plus SD
Steel	864/- plus SD
Rubber	864/- plus SD
Isabgul	355/- plus SD
PB1121	355/- plus SD
Pepper	355/- plus SD

SD: Stamp Duty as Applicable

NB: Any changes in the statutory and other charges incidental to volume shall be adjusted by the Exchange accordingly.

**Total payout = Fixed pay-out D (i) + additional pay-out D (ii) + additional pay-out D (iii)
+ Variable pay-out D (iv)**

- 8) The incentive payout will be made in the first week of subsequent month.
- 9) The market maker may reduce the fees charged by him, if he so wishes during the period of his acting as a market maker.
- 10) The Exchange will award the contract to the lowest bidder after the evaluation of his technical bids capabilities on basis of fixed daily pay-out quoted by him, however, the other two lower bidders will remain in the approved panel to act as MM in case, the 1st appointed MM withdraws or terminated by the Exchange. Then the contract will be automatically awarded to the subsequent bidders.
- 11) The Exchange may make LES available in other commodities, if the LES-Committee feels so, as and when approved by SEBI subject to the approval of the Board. The scheme would be on similar lines.

Monitoring and Evaluation:

The Exchange would continuously monitor the performance of the scheme including presence of MMs and their compliance with respect to the prescribed quoting obligations through a mix of online and offline monitoring tools.

- a) The Exchange will monitor the performance and regulatory compliance of the market makers and other participants in compliance with the scheme and SEBI regulations. In case any member is identified to be in violation of the above guidelines, the Exchange reserves the right to discontinue the arrangement with the member and take any such action that may be necessary as per the bye-laws, rules and regulations of the Exchange or as per the circular or regulation of SEBI.
- b) In case the Market Maker decides to discontinue then the MM will have to provide minimum fifteen (15) trading days' notice so that the Exchange may appoint alternative market maker in their place.
- c) In accordance with the aforesaid SEBI circulars, the Exchange may amend / discontinue the scheme at any time with an advance notice of 15 days or as per SEBI guidelines mentioned above and as may be effective from time to time.
- d) Exchange can consider exceptions in calculating MM's presence obligation if there are disruptions due to technical reasons and market conditions.
- e) Market halts in a contract shall not be counted as trading hours for calculation of MM's presence obligation.
- f) All payments will be paid after TDS deductions. TDS certificate will be issued on a quarterly basis.
- g) MM would carry out operation of liquidity enhancement using pre-identified user IDs and client code only.
- h) Exchange reserves the right to withhold payments and/or render members ineligible from further participation in the scheme if they engage in activities that are detrimental to the development of market such as, but not limited to, synchronized / self / circular trading. Any misuse of this scheme can also lead to disciplinary action.
- i) In case of any discrepancy, the decision taken by the Exchange will be final and binding.
- j) For performance evaluation, price circuit period won't be considered as trading period.

- k) If price circuit hour is more than 50% time of the trading hour on a day, such date would not be taken for the daily performance criteria calculation. However, such day's score shall be considered for weekly computation.

E. Suspension and Prohibition of Market Makers: -

Exchange reserves the right to restrict or prohibit a registered market maker from displaying on or entering quotations into the trading system or dealing in commodities in which he is registered as a market maker if:

- a) Such market maker has been or is expelled or suspended or declared a defaulter from trading membership of any recognized Exchanges, or is unable to comply with the Exchange's Bye Laws, Rules and Regulations or whose registration is cancelled by the SEBI.
- b) The market maker is in such financial or operating difficulties, that in the opinion of the Exchange, such market maker ought not to be allowed to display on or enter quotations into the trading system of the Exchange having regard to the safety of investors, creditors or other trading members of the Exchange;
- c) Where such market maker, in the view of the Exchange, ceases to meet qualification requirements for registration as a market maker.

Application for being Market Maker under ICEX Liquidity Enhancement Scheme
(On the letter head of the applicant)

To
LES Committee,
Indian Commodity Exchange of India Limited
Reliable Tech Park, 403-A,
B-Wing, 4th Floor, Thane-Belapur Road,
Airoli (E), Navi Mumbai – 400708, India

Subject: Application for being Market Maker under ICEX Liquidity Enhancement Scheme

Dear Sir,

We refer Exchange Circular no. ----- Dated----- inviting application for the subject matter.

We M/s _____ (Client Name/Member Name / Clearing Number) having its registered office at _____ would like to participate in the selection and bidding process for a designated Market Maker (MM) under ICEX liquidity enhancement scheme for Commodity/Commodities

Sr. No.	Commodity
1	
2	
3	
4	
5	

We have enclosed technical and financial bids as per the format specified.

The details of the contact person for any communication for the scheme is as given below –
Name: _____ Designation: _____

Postal Address: _____

Mobile: _____ Phone: _____ Email: _____

We are aware that only successful bidders having qualified for the scheme shall be appointed as designated MM.

We have read and understood the details of the Liquidity Enhancement Scheme (LES) as announced vide Exchange circular no. ----- Dated ----- for commodity/commodities.

We understand that the Exchange reserves the right to terminate the services of the designated Market Maker in case of non-fulfillment of their quote obligations or for any other actions that are detrimental to the development of the market. This would lead to withholding of any adjustments against incentive accruals and lead to legal proceedings.

We understand that ICEX has the right to terminate this scheme or amend or expand one or more of the conditions lay down in this circular at its discretion in accordance with SEBI guidelines. Further we agree to comply with the terms and conditions as specified in the exchange circular.

For and Behalf of (Member/Client) -----

Name of the applicant

Date

Place

TECHNICAL BID

To

LES Committee,
Indian Commodity Exchange of India Limited
Reliable Tech Park, 403-A,
B-Wing, 4th Floor, Thane-Belapur Road,
Airoli (E), Navi Mumbai – 400708, India

Subject: Technical bid for being Market Maker under ICEX Liquidity Enhancement Scheme

Dear Sir,

We refer Exchange Circular no. ----- Dated----- inviting application for the subject matter.

1. Total trading Experience in financial derivative (Equity/Currency/Commodity):
Preference would be given to commodity derivative segment.

No of Years:

2. Experience of Handling of Physical Delivery in commodity derivative markets in general:

Commodities Handled:

3. Experience in handling Market Making:

For and Behalf of (Member/Client) -----

Name of the applicant

Date:

Place:

FINANCIAL BID

To

LES Committee,
Indian Commodity Exchange of India Limited
Reliable Tech Park, 403-A,
B-Wing, 4th Floor, Thane-Belapur Road,
Airoli (E), Navi Mumbai – 400708, India

Subject: Financial bid(s) for being Market Maker under ICEX Liquidity Enhancement Scheme

Dear Sir,

We refer Exchange Circular no. ----- Dated----- inviting application for the subject matter.

We M/s _____ (Member Name / Clearing Number) having its registered office at _____ would like to participate in the selection process for a designated Market Maker (MM) under ICEX liquidity enhancement scheme for Commodity/Commodities as detailed below.

We quote our commercials for the service as under:

Sr.No.	Commodity	Fixed Pay-out (in Rs. per day)
1		
2		
3		
4		
5		

For and Behalf of (Member/Client) -----

Name of the applicant

Date:

Place: