

## LIQUIDITY ENHANCEMENT SCHEME FAQs

With an objective to invite participation and benefit all participants across various segments of the Capital Market, MCX-SX has introduced a Liquidity Enhancement Scheme (LES) in its Equity and Equity Derivatives segments which will be effective from March 6, 2013.

Growth and Inclusion, the philosophy adopted by MCX-SX for wholesome development of India's Capital Markets, is engrained in the Scheme, which will benefit smallest of retail participants to largest of institutions and also jobbers, dealers and members. MCX-SX is the first national exchange to offer incentives for liquidity enhancement in Equity Cash Market.

### MCX-SX Liquidity Enhancement Scheme in Equity and Equity Derivatives segments

Futures				Options		Equity Capital Market	
Market Makers (in 50 Securities)		Other Participants (in 50 Securities)		All participants		All participants	
Passive Sell	Passive Buy	Passive Sell	Passive Buy	Passive Sell	Passive Buy	Daily volume upto ₹200 cr	Daily volume greater than ₹200 cr
₹2765* per crore	₹215* per crore	₹500* per crore	₹30* per crore	₹3060* per crore premium	₹1360* per crore premium	₹600* per crore	₹850* per crore
All securities (All Participants)							
Passive Sell		Passive Buy					
₹550* per crore		₹80* per crore					

\*The incentive amounts listed above include all trading-related benefits other than the transaction fee waiver

# FAQs

## › What is MCX-SX Liquidity Enhancement Scheme (LES)?

MCX-SX is offering cash incentives to members and investors to encourage participation in its Equity and Equity Derivatives segment. This scheme is designed to contribute to genuine, sustainable and sticky liquidity and make MCX-SX the preferred destination for trading for members and investors.

## › When will the Liquidity Enhancement Scheme come into effect?

The Liquidity Enhancement Scheme will be effective from March 6, 2013.

## › Which are the segments included under the Liquidity Enhancement Scheme?

Liquidity Enhancement Scheme is available in both Equity Cash Market and Equity Derivatives Segment (Futures and Options in Stocks).

## › Is participation in this scheme open to general public?

Yes, everyone (investors and members) are eligible for incentives under MCX-SX Liquidity Enhancement Scheme for trading at MCX-SX.

## › What is the frequency of the incentive payout?

Incentives will be paid out on a fortnightly basis. Except, the monthly incentives like Special Incentive for MMs and Additional Incentives - Incentives for regular clients, Incentives for top dealers, Incentives for top Proprietary business, which will be paid on a monthly basis.

## › Are there any caps on incentive payouts?

There are no caps in the incentive payout for trading. All members trading at the Exchange shall be paid their applicable incentives.

## › What is the basis of determining the quantum of incentive?

The scheme incentivizes all participants in the market, with the degree of compensation determined by the service / value brought by broker members to the order books. The incentive rate and policies are pre-declared in the circular.

## › How will MCX-SX maintain adequate depth in its order book?

The MCX-SX Liquidity Enhancement Scheme will appoint 3 market makers for futures contract in 50 liquid scrips. These market makers are incentivized to ensure that quotes and depth is available. For other stock futures, options and equity cash, all participants are incentivized to maintain passive orders which will help in building depth.

## › What is the eligibility criterion for retail investors?

All trades in Equity Cash/Capital Market are eligible for incentives, whereas all passive leg of the trades in Equity Derivatives segment are eligible for incentives under this scheme.

## › How many securities are part of the Liquidity Enhancement Scheme?

All securities are eligible under the incentive scheme in both cash and derivatives segments. In addition, there will be market making on 50 stock futures.

## › What is passive and active order?

The order that is present in the book at the time of the trade (earlier time stamp) will be considered as passive order. The other leg of the trade is an active order.

## Equity Cash Market (ECM)

### › Who are the participants of Liquidity Enhancement Scheme of MCX-SX in Equity Cash Market?

All members and investors are eligible to participate in this scheme.

### › How many securities are part of the liquidity incentive scheme in ECM?

All securities traded in Equity Cash Market at MCX-SX are eligible for incentives under this scheme.

### › What is the incentive scheme for the Cash Market?

Participants are eligible for the following incentives:

- Trading Incentive: Cash incentive for all trades:
  - Buying / Selling in Equity Cash up to Rs 200 Cr (daily) - Rs. 500 / Cr

- Buying / Selling in Equity Cash more than Rs 200 Cr (daily)- Rs. 750 / Cr
- Transaction Fee Incentive: Exchanges Transaction Fee will be waived for passive leg of all trades in ECM
- Passive Leg Incentive: Passive leg of every trade in ECM is eligible for additional incentive of Rs 100 / Cr

## Equity Derivatives Segment

### ➤ Who are eligible for incentive in Equity Derivatives Segment?

All members and investors are eligible to participate in this scheme.

### ➤ What is the incentive scheme for equity options?

All participants are eligible for the following incentives:

- Trading Incentive: Cash incentive for all trade:
  - Passive Sell - Rs. 1810 / Cr Premium
  - Passive Buy - Rs. 110 / Cr Premium
- Transaction Fee Incentive: The Exchange Transaction Fee will be waived off for passive leg of all trades in equity options
- Passive Leg Incentive: Passive leg of every trade is eligible for additional incentive of Rs 1250 / Cr Premium

### ➤ What is the incentive scheme for Other Stocks Futures (Stock Futures with no designated MM)

All participants are eligible for the following incentives:

- Trading Incentive: Cash incentive for all trades:
  - Passive Sell - Rs. 500 / Cr
  - Passive Buy - Rs. 30 / Cr
- Transaction Fee Incentive: The Exchange Transaction Fee will be waived off for passive leg of all trades in stock futures
- Passive Leg Incentive: Passive leg of every trade is eligible for additional incentive of Rs 50 / Cr

## Other Participants

### ➤ What are other participants?

All participants who are not a Market Maker for a security are Other Participants (OPs).

### ➤ What is the incentive scheme for OPs in identified 50 Stock Futures?

All participants are eligible for the following incentives:

- Trading Incentive: Cash incentive for all trade:
  - Passive Sell - Rs. 500 / Cr
  - Passive Buy - Rs. 30 / Cr
- Transaction Fee Incentive: The Exchange Transaction Fee will be waived off for passive leg of all trades in ECM
- Open Interest Incentive: Members will be eligible for Rs 500 per crore of Open Interest daily. This is applicable to identified list of 50 securities in which Market Making is available and is capped at Rs. 1,00,000 daily at the Exchange level (pro-rata distribution).

### ➤ Will I still be eligible for incentives if I am not a designated Market Maker?

All market participants are eligible for incentives at different rates, besides the Market Maker.

## Market Maker

### ➤ What are the eligibility criteria for a Market Maker (MM)?

Market Maker (MM) for the Futures segment should demonstrate the ability to quote, trade and clear in futures on a consistent basis.

### ➤ What are the obligations for a Market Maker (MM)?

MMs will be obligated to provide continuous quotes (in selected securities) with specified size & spread in futures contracts. The MM will have to meet the obligation throughout the trading day, at the desired level as specified in the circular issued by the Exchange in order to be entitled to receive the additional incentive.

Members would have to apply to the exchange for market making in minimum of 15 securities. However, the Exchange reserves the right to allocate securities from the preferred list for market making or suggest additional securities to balance the market requirements.

➤ **What are the types of incentives that a Market Maker will be eligible for?**

MMs will be eligible for all the five type of incentives – Quoting, Liquidity, Open Interest, Transaction Fee Waiver and Passive Leg Incentive. In addition, there are Special Incentives for consistently quoting as listed below:

Successful MM obligation by a Market Maker in 40 securities for more than 90% of the specified trading time on all days in a month	Rs. 50 Lakhs
Successful MM obligation by a Market Maker in 40 securities for more than 85% of the specified trading time on all days in a month	Rs. 25 Lakhs
Successful MM obligation by a Market Maker in 20 securities for more than 90% of the specified trading time on all days in a month	Rs. 21 Lakhs
Successful MM obligation by a Market Maker in 20 securities for more than 85% of the specified trading time on all days in a month	Rs. 11 Lakhs

➤ **I am a Market Maker in Stock Futures. What will be the incentive for me for quoting?**

The quoting incentive is Rs 1,10,000 per security per month per member (assuming a 22 day month), besides the other incentives that are available to a Market Maker to offset his costs.

➤ **I am a Market Maker. What are the eligibility criteria for variable liquidity incentive and daily quoting incentive?**

In case the Market Maker has been present for longer than the stipulated percentage in any of the three time periods, then they are eligible for the variable incentive.

If this variable incentive is larger than the Rs 5,000 per security or the quoting incentive, then the Market Maker will be paid only the variable incentive.

If the variable incentive is lower than the quoting incentive, then the Market Maker will be paid only quoting incentive.

➤ **What are incentive rates for passive buy and sell in stock futures for a Market Maker?**

Passive Buy: Rs 110 per Crore.

Passive Sell: Rs 1,810 per crore.

➤ **What are incentive rates for active buy and sell in stock futures for a Market Maker?**

Active Buy: Rs 110 per Crore.

Active Sell: Rs 1810 per Crore.

Active trading volume up to 10% of passive volume will be eligible for this incentive.

➤ **What is the maximum liquidity-based incentive that a participant will get during the day?**

The maximum liquidity-based incentive will be received by the Market Maker when they are present at 90% of the time during all three periods of the trading day. That amount will be Rs 2,715 per Crore for Passive sell and Rs 165 per Crore for Passive Buy.

➤ **What are the incentive rates for Open Interest?**

Rate of incentives for Open Interest will be Rs 500 per crore of Open Interest daily. This is applicable to identified list of 50 securities in which Market Making is available.

➤ **How many levels am I obligated to quote in the order book to qualify as a Market Maker?**

The MCX-SX LES-EDS requires the Market Maker to be present in the top five levels of the order book (with differing presence requirements), in order to qualify as a Market Maker. The presence in top three levels will be monitored by the Exchange.

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