भारतीय प्रतिभूति और विनिमय बोर्ड
Securities and Exchange Board of India

CIRCULAR

CIR/MRD/DP/05/2013 February 08, 2013

To

All Stock Exchanges.

Dear Sir/Madam,

Sub: Liquidity Enhancement Schemes for Illiquid Securities in Equity Cash market

1. SEBI vide its circular CIR/DNPD/5/2011 dated June 02, 2011, permitted liquidity enhancement schemes (LES) in Equity Derivatives Segment and specified broad guidelines for the same.

2. Pursuant to the introduction of LES scheme in derivatives segment to enhance liquidity in illiquid derivative products, there was demand that similar scheme may also be introduced for the Equity Cash market. It has therefore been decided to permit stock exchanges to introduce LES to enhance liquidity of illiquid securities in their Equity Cash market.

3. LES may be introduced in any of the following securities:
   (a) Securities having a mean impact cost greater than or equal to 2% for an order size of Rs.1 lakh, where mean impact cost of the security on the stock exchange is calculated over the past 60 trading days.
   (b) Securities introduced for trading in the "permitted to trade" category.

4. LES may be continued till such time as the security achieves mean impact cost of less than 2% for an order size of Rs.1 lakh on the stock exchange during the last 60 trading days.

5. Discontinuation of LES for any security shall be done after advance notice of 15 days.

6. Stock exchanges may re-introduce LES on a security if the criterion as mentioned in para 3(a) is satisfied.

7. In case any stock exchange introduces LES on securities eligible under para 3(a) above, other stock exchanges may also introduce LES in the same securities even if those are not eligible on their stock exchange under 3(a). Such LES of other stock exchanges shall not be continued beyond the period of LES at the initiating stock exchange.

8. The stock exchange shall ensure that the LES, including any modification therein or its discontinuation,

   (a) has the prior approval of its Board and its implementation and outcome is monitored by the Board at quarterly intervals;

   (b) prescribes and monitors the obligations of liquidity enhancers (liquidity provider, market maker, maker-taker or by whatever name called);

   (c) disburses the incentives linked to performance;

   (d) is objective, transparent, non-discretionary and non-discriminatory;

   (e) does not compromise market integrity or risk management;

   (f) complies with all the relevant laws; and

   (g) is disclosed to the market atleast 15 days in advance and its outcome (incentives granted and volume achieved – liquidity enhancer wise and security wise) is disseminated monthly within a week of the close of the month.

9. The incentives under LES shall be transparent and measurable. These may take either of the two forms:

   (a) Discount in fees, adjustment in fees in other segments or cash payment;

   (b) Shares, including options and warrants, of the stock exchange.

10. If a stock exchange chooses the form specified in Para '9a' above, the incentives under all LES (both Equity Cash and Derivative Segment), during a financial year, shall not exceed 25% of the net profits or 25% of the free reserves of the Stock Exchange, whichever is higher, as per the audited financial statements of the preceding financial year. If, however, a stock exchange chooses the form specified in Para '9b' above, the shares, including the shares that may accrue on exercise of warrants or options, given as incentives under all LES (both Equity Cash and Derivative Segment), during a financial year, shall not exceed 25% of the issued and outstanding shares of the Stock Exchange as on the last day of the preceding financial year. Further, the Exchange shall ensure that it is compliant with the Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) Regulations, 2012 at all times.

11. From a market integrity perspective, the stock exchange shall ensure the following, in respect of LES for both Equity Cash market and Derivative Segment:

   (a) The Exchange must have systems and defined procedures in place to monitor collusion between trading members indulging in trades solely for seeking incentives and prevent payment of incentives in such cases.

(b) In addition to (a) above, incentives in the form of cash payments, warrants, discount in fees, etc may not be provided for the trades where the counterparty is self, i.e., same Unique Client Code (UCC) is on both sides of the transaction.

(c) Any violations of clauses in this para shall be viewed most seriously.

(d) In this regard, SEBI circular CIR/DNPD/5/2011 dated June 02, 2011 stands modified to the extent as mentioned in para 10 and 11.

12. The Stock Exchange shall submit half-yearly reports on the working of its LES for review of SEBI.

13. This circular shall not be applicable to securities listed on SME Platform or SME Exchange. Further, the conditions specified in SEBI circular SMDRP/Policy/CIR-04/2000 dated January 20, 2000 shall not be applicable for the LES introduced pursuant to this circular.

14. Stock Exchanges are directed to:

   a) take necessary steps to put in place systems for implementation of the circular, including necessary amendments to the relevant byelaws, rules and regulations;

   b) bring the provisions of this circular to the notice of the stock brokers and also disseminate the same on its website;

   c) communicate to SEBI the status of implementation of the provisions of this circular.

15. This circular is being issued in exercise of powers conferred under Section 11 (1) of the Securities and Exchange Board of India Act, 1992 to protect the interests of investors in securities and to promote the development of, and to regulate the securities market.

Yours faithfully,

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