
NATIONAL COMMODITY & DERIVATIVES EXCHANGE LIMITED

Circular to all members of the Exchange

Circular No : NCDEX/TRADING-004/2023

Date : January 16, 2023

Subject : Liquidity Enhancement Scheme in Steel Futures Contracts

In terms of the Bye-laws, Rules and Regulations of the Exchange, Members of the Exchange are notified as under:

SEBI vide its circular no. SEBI/HO/CDMRD/DMP/CIR/P/2018/55 dated March 26, 2018 issued guidelines for Liquidity Enhancement Scheme (LES) in commodity derivatives contracts.

Exchange is pleased to introduce Liquidity Enhancement Scheme in Steel Futures Contracts to encourage active participation and market development.

In view of the above, the interested applicants for market maker role can submit their bids in the format specified from January 16, 2023 to January 17, 2023.

The Exchange will appoint only one designated market makers (DMM) for Near and Next Month for the Steel Futures contracts based on a competitive bidding procedure.

The successful bidder shall be appointed as Designated Market Maker (DMM) till the scheme for the product remains in force if the Designated Market Maker fulfills all the obligations during the tenure of LES. The interested applicants can submit their bids in the format specified in Annexure II for Steel Contract on or before January 17, 2023 by 5:00 PM to become eligible for being appointed as Designated Market Maker (DMM). Based on the bids received, NCDEX would perform the evaluation of bids as per the grading scale given in Annexure I.

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

For and on behalf of

National Commodity & Derivatives Exchange Limited

Arun Yadav
SVP- Products

Enclosure - Annexure

For further information / clarifications, please contact

1. Mr. Abhishek Rajurkar (Quant & Market Structure): abhishek.rajurkar@ncdex.com
2. Customer Service Group on toll free number: 1800 26 62339 Customer Service Group by E-mail to: askus@ncdex.com

Annexure-I

1. Structure of LES:

1.1 LES in STEEL FUTURES CONTRACT

Product/ Commodity Available under LES scheme	STEEL FUTURES
Number of Designated Market Maker (DMM) allowed to participate	1
Eligible Contracts	Two futures contract – Near Month and Next Month
Monthly Incentive	Up to Rs. 25,00,000 per market maker per month
Incentive Payout	Monthly
Presence required	85% of trading time daily from 9 AM to 5 PM on the market making on near month and next-month futures contract for full monthly incentive amount. Acceptable up to 75% of trading time daily from 9 AM to 5 PM on the market making on near month and next-month futures contract at a discounted rate. Presence below 75% will not be eligible for payout.
Market depth	Quotes required at all 5 level in the order book
Rollover	The near month obligations will be rolled over to next month contract on the first trading day of the staggered period. Similarly, next month obligations will be rolled over to the 3rd month contract on the first trading day of the staggered period.

Spread required as per below mentioned table in STEEL futures contracts

LEVELS	Near Month		Next Month	
	Bid Ask Spread (Ticks)	No of Lots (Each Side)	Bid Ask Spread (Ticks)	No of Lots
Level 1	10	3	10	1
Level 2	12	3	12	1
Level 3	14	2	14	1
Level 4	16	2	18	1
Level 5	18	2	20	1

Table 2. Spread required in STEEL futures contracts

1.2 Evaluation criteria of Market Making in STEEL futures-

- Actual incentive will be paid after deductions based on total points lost by DMM in a month.
- 1 point is equal to Rs.1000.

Minimum Base Obligation in Near Month	Steel Futures	Incentive Calculation
Presence Requirement	85%	For every 1% reduction below base requirement up to 75%, score will be decreased by 10 points.
Minimum Quantity of lots at top 2 Level	3	3 lots on each side at top 2 level need to be maintained to be eligible for payout.
Minimum Quantity of Lots at Level 3 to 5	2	For every 1 lot reduction below base requirement up to 1 lot, score will be decreased by 10 points.
Bid Ask Spread in the Top Level	10	It must be maintained to be eligible for payout.
Bid Ask Spread from Level 2 to Level 5	As per Table.2	It must be maintained to be eligible for payout.

Minimum Base Obligation in Next Month	Steel Futures	Incentive Calculation
Presence Requirement	85%	For every 1% reduction below base requirement up to 75%, score will be decreased by 10 points.
Minimum Quantity of Lots at All Level	1	1 lot on each side at all 5 levels need to be maintained to be eligible for payout.
Bid Ask Spread in the Top Level	10	It must be maintained to be eligible for payout.
Bid Ask Spread from Level 2 to Level 5	As per Table.2	It must be maintained to be eligible for payout.

2 Selection of Designated Market Maker for STEEL Futures Contracts –

- Eligibility Criteria:
 - Net worth of at least Rs. 1 crores
 - No serious disciplinary action against the member in the last year

Trading members / Clients of Trading members who are interested in providing continuous quotes as Designated Market Makers shall be required to register with the Exchange.

- Trading Members (TM) who wish to apply for Market Making (MM) may submit their bids for MM for self or on behalf of their client.
- A Trading member can submit bids for self or for their clients clearly mentioning the client code in which they intend to do Market Making.
- Members can apply for Market Making from the list of contracts specified by the Exchange.

- Members should apply product wise with Market Making application.
- The bids received from the trading members of the Exchange shall be evaluated on an objective selection criterion.
- Based on the scores, one bidder for Steel Futures contracts shall be selected as Designated Market Makers, however the market making obligation for the Market maker shall be determined based on the lowest obligation of each parameters received from the Market Maker.

Obligations	Criteria to be applicable for the MM
Presence (%)	Lowest Presence of the Top shortlisted MM
No of Lots	Lowest Lots of the Top shortlisted MM
Spreads	Highest Spreads of Top shortlisted MM
Incentive Amount	Lowest in terms of Bid Incentive Amount

- Based on the initial evaluation of scores, if the scores of two or more members match with each other, then Exchange shall allow respective members to resubmit the revised bids within one working day.
- Exchange's decision with respect to the selection of Market Maker shall be final and binding.

3 Failure by Designated Market Maker

- In case of failure of obligations by Designated Market Maker in Steel futures contract for more than 3 working days (without any official intimation to exchange), such MM shall cease to be Designated Market Maker.
- Similarly, in case Designated Market Maker is not willing to participate as Market Maker, Member shall officially inform the exchange about the same.
- In above cases, Next best bids based on the evaluation parameter shall be given the opportunity to become Designated Market Maker on Immediate basis or maximum 3 working days.
- In case of failure in fulfilling the market making obligation by Designated Market Maker, MM shall be given a waiver of maximum one day in a month as grace period (Only applicable in case of technical reasons and fast market conditions).
- Exchange reserves the right to amend or discontinue the existing designated market maker and appoint a new designated market maker at any point of time.

4 Incentive Payout

- Quoting incentive shall be paid on a pro-rata basis in case the scheme is launched or discontinued in the middle of the month. In case a designated market maker is appointed in the middle of the month, both previous and new market maker will receive quoting incentives on a pro-rata basis, if qualified.
- Respective market maker will be required to submit a GST invoice on a monthly basis for release of incentive payout.

Annexure - II

Application Format for Market Making

(To be printed on the official letter head of the applicant)

To

Designated Officer

National Commodity and Derivatives Exchange Ltd.

Registration as Designated Market Maker (DMM) for Steel Futures

Dear Sir / Madam,

- We M/s _____ (Member Name / Clearing Number) having its registered office at _____ would like to get registered as a designated Market Maker (DMM) of the National Commodity and Derivatives Exchange Limited for the Steel Futures.
- We are aware that the successful bidders from an objective criterion-based bidding process shall be appointed as designated MM.
- We understand that the Exchange reserves the right to amend / discontinue the scheme or expand condition(s) laid down in their circular at its discretion in accordance with SEBI circular dated April 23, 2014.
- 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 agree to comply with the terms and conditions as specified in this circular regarding the LES and as may be amended by the Exchange from time to time.
- We have enclosed our bids below:

Minimum Base Obligation in Near Month Contract	Futures (STEEL)	Incentive Calculation	Member Commitments		
Presence Requirement	85%	For every 1% reduction below base requirement up to 75%, score will be decreased by 10 points.	Presence for ____ % of the trading hours.		
Minimum Quantity of Lots at Level 3 to 5	2	For every 1 lot reduction below base requirement up to 1 lot, score will be decreased by 10 points.			
				Bid Quantity	Ask Quantity
			Level 3		
			Level 4		
			Level 5		

Minimum Base Obligation in Next Month Contract	Futures (STEEL)	Incentive Calculation	Member Commitments
Presence Requirement	85%	For every 1% reduction below base requirement up to 75%, score will be decreased by 10 points.	Presence for ____ % of the trading hours.

Other Mandatory obligations for the Designated Market Maker of STEEL Contracts are given in Annexure-I.

Bidding Amount:-

The details of the contact person from our organization is as given below

Name:

Designation:

Mobile:

Phone:

Email:

For << Organisation Name>>

(Signature of Authorised Signatory & Stamp)

Name:

Designation:

Date:

Location:

Notes:

- Members are requested to send their bids in email to les@ncdex.com
- If the bids are incomplete, Exchange shall reject the application,
- Bids shall be evaluated as per the Selection Criteria specified in Annexure I
- Applicant with the highest scores in the evaluation shall be appointed as Designated Market Makers (DMMs).