



CIRCULAR

CIR/MRD/DSA/31/2012

November 27, 2012

To
The Managing Director/Executive Director
of all Stock Exchanges, Clearing Houses/Corporations

Dear Sir / Madam,

Sub: Inventory Management for Market Makers of SME Exchange / Platform

1. SEBI vide circular dated April 26, 2010 has issued guidelines for market makers on stock exchange/trading platform by a recognized stock exchange having nationwide trading terminals for Small and Medium Enterprises (SMEs).
2. Further, SEBI vide circular dated May 18, 2010 prescribed the framework for setting up of a stock exchange/trading platform by a recognized stock exchange having nationwide trading terminals for Small and Medium Enterprises (SMEs).
3. In this regard it has been decided to make applicable, limits on the upper side for market makers during market making process taking into consideration the issue size in the following manner -

Issue Size	Buy quote exemption threshold (<i>including mandatory initial inventory of 5% of issue size</i>)	Re-entry threshold for buy quotes (<i>including mandatory initial inventory of 5% of issue size</i>)
Upto ₹20 Crore	25%	24%
₹20 Crore to ₹50 Crore	20%	19%
₹50 Crore to ₹80 Crore	15%	14%
Above ₹80 Crore	12%	11%



4. Further, the following shall apply to market makers while managing their inventory during the process of market making:
- i. The exemption from threshold shall not be applicable for the first three months of market making and the market maker shall be required to provide two way quotes during this period irrespective of the level of holding.
 - ii. Threshold for market making as prescribed will be inclusive of mandatory inventory of 5% of issue size at the time of allotment in the issue.
 - iii. Any initial holdings over and above such 5% of issue size would not be counted towards the inventory levels prescribed.
 - iv. Apart from the above mandatory inventory, only those shares which have been acquired on the platform of the exchange during market making process shall be counted towards the Market Maker's threshold.
 - v. Threshold limit will take into consideration, the inventory level across market makers.
 - vi. The market maker shall give two way quotes till he reaches the upper limit threshold, thereafter he has the option to give only sell quotes.
 - vii. Two way quotes shall be resumed the moment inventory reaches the prescribed re-entry threshold.
 - viii. In view of the market maker obligation, there shall be no exemption/threshold on downside. However, in the event the market maker exhausts his inventory through market making process on the platform of the exchange, the concerned stock exchange may intimate the same to SEBI after due verification.
5. All stock exchanges are advised to:
- i. make necessary amendments, if any to the relevant bye laws, rules and regulations for the implementation of the above decision.
 - ii. disseminate the same on their website for easy access to the market makers and other market participants.
 - iii. communicate to SEBI, the status of implementation of the provisions of this circular in the monthly development report.



6. This circular is issued in exercise of the powers conferred under Section 11(1) of the Securities and Exchange Board of India Act, 1992, read with Section 10 of the Securities Contracts (Regulation) Act, 1956 to protect the interests of investors in securities and to promote the development of, and to regulate the securities market. This circular shall come into effect immediately.

This circular is available on SEBI website at www.sebi.gov.in

Yours faithfully,

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