

ANNEXURE 2: GUIDELINES REGARDING THE MARKET MAKING FRAMEWORK⁴⁶⁹

1. Market Making in ETFs

The following broad points shall be considered while designing the market making framework in ETFs:

1.1. Obligations of AMC: Obligations shall, *inter-alia*, include:

- 1.1.1. AMCs to enter into agreement with at least two Market Makers (MMs) for each ETF.
- 1.1.2. AMCs may select MMs based on various criteria including experience in the capital market, capital adequacy, net worth, infrastructure, volume of business, etc.

1.2. Obligations and responsibilities of a Market Maker: Obligations shall, *inter-alia*, include:

- 1.2.1. **Quote:** MM shall be mandated to provide a two-way quote during such minimum time frame for which the MM may be required to make market. MM shall guarantee execution of orders at quoted price and quantity for quotes given by it.
- 1.2.2. **Minimum timeframe:** The minimum time frame for which the MM is required to make the market shall be 75% of the time during market hours of a trading day. Further, MM shall also be mandated to be present in the Best Buy/Sell order/quote for e.g. top 5 buy/sell order/quote.

1.3. Information to be collected from Stock Exchanges: AMCs to collect the following information from SEs on daily basis:

- 1.3.1. Total quantity traded by the MM in a particular ETF and its % trade to total quantity traded in the market of that ETF.
- 1.3.2. Minimum, Maximum and Median prices at which the MM has executed the trades.
- 1.3.3. Minimum, Maximum and Median spread at which the MM has provided the quotes.

1.4. Compensation of MM: The issue of compensation is to be decided between the AMC and the MM. It may have recourse to factors such as trading volume, bid-ask spread in units of ETFs, and such other information as may be required to formalize performance based incentive structure.

⁴⁶⁹ SEBI Circular No. SEBI/HO/IMD/DOF2/P/CIR/2022/69 dated May 23, 2022