



International Financial Services Centres Authority

CIRCULAR

IFSCA-DMCDPRMS/2/2023/DMC

February 04, 2025

To

Bullion Exchange in the International Financial Services Centre (IFSC)
Bullion Clearing Corporation in the IFSC
Bullion intermediaries in the IFSC

Madam/Sir

Liquidity Enhancement Scheme for Bullion Exchange

It has been decided to permit the Bullion Exchange in the IFSC to introduce one or more liquidity enhancement schemes (LES) to enhance liquidity of illiquid commodity derivatives contracts.

2. The Bullion Exchange may introduce an LES in commodity derivatives contracts subject to the following:
 - a) The scheme shall have the prior approval of the Governing Board of the Bullion Exchange which will be valid for one year or such lesser period as may be decided by the Governing Board. Further, the implementation and outcome of the LES shall be monitored by the Governing Board at quarterly intervals.
 - b) The scheme shall be objective, transparent, non-discretionary and non-discriminatory.
 - c) The scheme shall specify the incentives available to the market makers / liquidity providers / related participants; such incentives may include discount in fees, adjustment in fees in other segments, cash payments or issue of shares, including options and warrants.
 - d) The scheme shall not compromise market integrity or risk management.



- e) The effectiveness of the scheme shall be reviewed by the Governing Board of the Bullion Exchange every quarter and Bullion Exchange reports shall be submitted to IFSCA with comments of the Governing Board on a half-yearly basis.
- f) The scheme, including any modification therein or discontinuation thereof, shall be disclosed to the market at least 15 days in advance.
- g) The outcome of the scheme (incentives granted and volume achieved –market maker wise and security wise) shall be disseminated monthly on its website.
- h) The scheme shall comply with all the relevant laws.

3. Securities eligible for LES

The Bullion Exchange shall formulate its own benchmarks for selecting the securities for liquidity enhancement with the broad objective of enhancing liquidity in illiquid securities.

- a) The Bullion Exchange may introduce LES on any security. Once the scheme has been discontinued, the scheme can be re-introduced on the same security.
 - b) The list of securities eligible for liquidity enhancement shall be disseminated to the market.
4. The incentives under LES shall be transparent and measurable, and may take either of the following two forms:
- a) **Discount in fees, adjustment in fees in other segments or cash payment:** The incentives during a financial year shall not exceed 25% of the net profits or 25% of the free reserves of the Bullion Exchange, whichever is higher, as per the audited financial statements of the preceding financial year.
 - i. However, during the first five years of its operation, the Bullion Exchange can earmark up to 25% of its audited net worth as on the last day of the previous financial year, as the yearly incentives for the LES.



- ii. The Bullion Exchange shall create a reserve specifically to meet its LES incentives/expenses and transfer funds to such reserve accordingly, which shall be approved by its Governing Board. Such reserve shall not be included in the calculation of its net worth.
- b) **Shares, including options and warrants, of the Bullion Exchange:** The shares that may accrue on exercise of warrants or options, given as incentives under all LES, during a financial year, shall not exceed 25% of the issued and outstanding shares of the Bullion Exchange as on the last day of the preceding financial year. Further, the Bullion Exchange shall ensure that this is in compliance with the IFSCA (Bullion Market) Regulations, 2025 at all times.

5. Market Integrity

The Bullion Exchange shall ensure the following:

- a) Monitoring systems and defined procedures in place to ensure that bullion trading members do not indulge in trades solely for seeking incentives; no incentives shall be payable in such cases. Incentives shall also 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.
- b) A mechanism to ensure that the LES does not take away liquidity from the market, is not manipulative in nature and does not lead to mis-selling of the product in the market.

6. Market maker / liquidity enhancer

The Bullion Exchange shall prescribe and monitor the obligations of liquidity enhancers (liquidity provider, market maker, market taker or by whatever name called).

- a) All market maker / liquidity enhancer orders / trades should be identifiable by the Bullion Exchange.



- b) A conflict-of-interest framework shall be put in place by the Bullion Exchange for the LES. Such a framework shall provide for obligations on the part of the market maker/ liquidity enhancer to disclose any conflict-of-interest while participating in the scheme. The same shall be disclosed by the Bullion Exchange on its website.
7. The Bullion Exchange is directed to:
- a) take 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 its members and disseminate the same on its website; and
 - c) communicate to IFSCA the status of implementation of the provisions of this Circular.
8. This circular is issued in exercise of powers conferred under Section 12 of the International Financial Services Centres Authority Act, 2019 to develop and regulate the financial products, financial services and financial institutions in International Financial Services Centres.
9. A copy of this circular is available on the website of the International Financial Services Centres Authority at www.ifsc.gov.in.

Yours faithfully

(Ramaneesh Goyal)
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