Sebi allows liquidity enhancement schemes in equity cash market

Market regulator Sebi has allowed stock exchanges to introduce incentive schemes for brokers and intermediaries to enhance liquidity in illiquid securities in the equity cash segment.

The decision has been taken pursuant to introduction of incentive schemes in derivatives segment to enhance liquidity in illiquid derivative products, and demands for similar schemes for the Equity Cash market, Securities and Exchange Board of India (Sebi) said in a circular.

Under the scheme, brokers and other market intermediaries are given incentives for a specified period of time to bring in liquidity and generate investor interest in those securities which have limited trading activity. There are more than 2,000 illiquid stocks on leading exchanges.

Sebi said it has been decided to "permit stock exchanges to introduce Liquidity Enhancement Schemes (LES) to enhance liquidity of illiquid securities in their Equity Cash market".

The securities eligible for the schemes are required to have "a mean impact cost greater than or equal to 2 per cent for an order size of Rs 1 lakh, calculated over the past 60 trading days".

Besides, the schemes would apply to those securities which fall under the 'permitted to trade' category.

Sebi said that LES "may be continued till such time as the security achieves mean impact cost of less than 2 per cent for an order size of Rs one lakh on the stock exchange during the last 60 trading days".

The regulator said the schemes can be discontinued at any time with an advance notice of 15 days.

Sebi added that stock exchanges may also re-introduce LES on the securities which meet the eligibility criteria.

Moreover, in case a bourse introduces the scheme on securities, "other stock exchanges may also introduce the scheme in the same securities "even if those are not eligible" on their platform. Such LES of other stock exchanges shall not be continued beyond the period of LES at the initiating stock exchange", Sebi said.

The guidelines also state that a stock exchange would have to seek the prior approval of its board regarding LES and any modifications or discontinuation of the scheme. The Board has to monitor the schemes at quarterly intervals.

The stock exchanges have been asked to monitor such schemes as per the norms, ensure that they are operated in a transparent manner and do not compromise market integrity.

According to Sebi guidelines, in order to ensure transparency, the incentives could be provided in the form of discount in fees, adjustment in fees in other segments or cash payment.

Such incentives can't exceed 25 per cent of net profits or 25 per cent of the free reserves of the stock exchange, whichever is higher, as per financial statements of the preceding fiscal year, Sebi said.

Besides the incentives may also be provided through shares, including options and warrants, of the stock exchange.

These shares can't exceed 25 per cent of the issued and outstanding shares of the stock exchange as on the last day of the preceding financial year, as per the regulator.

Bourses are required to submit half-yearly reports on the working of its LES for review by Sebi.

Sebi noted that the schemes would not be applicable to securities listed on SME platform or SME Exchange.

(Economic Times)