



Zerodha Fund House

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Policy on Market Making In ETFs

I. Introduction

This policy is pursuant to clause 3.6.1.2 read with annexure 12 of the SEBI Master Circular dated June 27, 2024 (“**Master Circular**”), necessary Annexure and subsequent guidelines and circulars issued from time to time prescribed by SEBI, the following broad principles shall be followed by Zerodha Asset Management Private Limited (“**the Company**”) while designing the Market Making Framework (MM) in ETFs.

II. **Company’s Obligation:** AMC is required to comply with the following obligations:

- a. To enter into an agreement with at least two (2) Market Makers (MM) for each of its ETFs;
- b. Selection of MM(s) shall be based on the following criterias like experience in the capital market, capital adequacy, net worth, infrastructure, volume of business, etc.

III. **Obligation and Responsibilities of MM(s):**

1. **Quote:** MM are required to mandatorily provide two-way quote during such minimum time frame for which the MM are required to make market. MM shall guarantee execution of orders at quoted price and quantity for quotes given by it.
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 example: Top 5 buy/sell order/quote etc.

IV. **Information to be collected from Stock Exchanges:**

AMC to collect the necessary information from stock exchanges as prescribed under the Master Circular if and when required.

V. **Compensation/Incentive Scheme for MM:**

The guiding principles and how incentives can be determined is provided below:

a. **Guiding principles**

- MM can be incentivised by determining how they have been able to generate liquidity in the market for the units of ETFs and how closely transactions are undertaken to the applicable iNAV;

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- Incentives, if any, to MM shall be charged to the scheme within the maximum permissible limit of Total Expense Ratio ("TER").

b. Determination of incentive for MM

Incentive for MM will be determined basis any or all of the following criteria:

- Based on volume conducted by MM on the exchange as compared to the total volume of respective ETFs on the exchange;
- Fixed monthly compensation not exceeding TER of the scheme;
- Any other performance-based incentives.

c. Discretion of AMC

- Any incentives to MM shall be at the discretion of the Company and shall be decided between the Company and the MM, which may be variable or fixed in nature within the overall limits of TER;
- Incentives, if any, will be payable to MM subject to MM fulfilling its obligations and responsibilities.

d. Approval

- Currently, the AMC does not incentivise any Market Makers of the Scheme(s) of Zerodha Mutual Fund. Any future consideration of providing incentives to market makers will be subject to the approval of the Chief Executive Officer(CEO) of the AMC and should also be placed before the Board of AMC & Trustees.

This policy shall be reviewed annually and in case of any change/modification proposed in the policy This Policy shall also be published on the website of the AMC/Fund.
