

# FIA Roundtable – LME

30 April 2019



SETTING THE GLOBAL STANDARD



# Agenda

Section	Title
1.	Update on Brexit
2.	LME Code of Conduct
3.	Pre-trade transparency
4.	Market Surveillance
5.	Strategic Pathway

# Update on Brexit

# LME Group Brexit contingency planning

LME Group's Brexit contingency plans permit the LME and LME Clear to continue providing access to all members irrespective of the nature and timing of Brexit.

## CCP equivalence and recognition – LME Clear

- LME Clear will become a third country CCP
- Equivalence determined by the European Commission
- Recognition granted by ESMA

## Licences for access - LME

- Licence has been granted in Germany
- Dispensation has been granted in the Netherlands
- Both become effective on Brexit, covering existing and new members

## Trading venue equivalence - LME

- The LME will become a third country trading venue under MiFIR
- LME contracts would become OTC for EEA clients – scale of impact unclear
- European Commission has repeatedly made clear that it will not consider the UK an equivalent jurisdiction in advance of Brexit

# LME Code of Conduct

# Code of Conduct

A natural extension of the LME's values, published on 8 April 2019



## Aims

- To provide clear guidance for LME Group staff members acting in their official LME capacity
- Further facilitate the ongoing enhancement of conduct in the wider metals sector, and underscores commitment to the metals market



## Who

- LME Group staff members and visitors at the LME's premises
- Member employees
- All attendees at LME-organised events or LME-branded events



## Message from Matthew Chamberlain, CEO

"The LME has long-held values of integrity, diversity, excellence, collaboration and engagement. The publication of our Code of Conduct today formalises and extends our principles to all our stakeholders participating at LME and LME-affiliated events. By setting out our values and expected conduct, we are taking a positive step in the changing behaviour of the wider industry."

# Pre-trade transparency

# Pre-trade transparency for inter-office market

## Current situation

Issue: ESMA disagrees with the approach the LME has taken in relation to pre-trade transparency in the inter-office market

ESMA may oblige FCA to take enforcement action against LME (and other trading venues) unless they can demonstrate a path to compliance

LME has identified a number of options which are described in Notice 19/016



# Possible options available to the LME

LME is seeking Member and Client feedback on how to best introduce pre-trade transparency to the inter-office market

	1 Implement a new solution	2 Block trade limits for inter-office market	3 Block trade limits and new OTC Clearing solution
Description	<ul style="list-style-type: none"> <li>New technological solution to allow PTT compliant trading of non-waivable business</li> </ul>	<ul style="list-style-type: none"> <li>Introduce a block trade thresholds to meet the requirements for waived LIS transactions</li> </ul>	<ul style="list-style-type: none"> <li>Block trade thresholds as per option 2, plus</li> <li>New OTC clearing service</li> </ul>
Pros	<ul style="list-style-type: none"> <li>Compliance with Article 8(1)</li> </ul>	<ul style="list-style-type: none"> <li>Compliance with Article 8(1)</li> </ul>	<ul style="list-style-type: none"> <li>Compliance with Article 8(1)</li> </ul>
Cons	<ul style="list-style-type: none"> <li>Additional burden for members &amp; LME</li> <li>Behavioural change required</li> <li>New tech solution required</li> <li>Query how meaningful indications of interest would be</li> </ul>	<ul style="list-style-type: none"> <li>Only large trades permitted, potential to lose volume (about 7%, although some volume may migrate to Ring / LMEselect)</li> <li>Less transparency</li> </ul>	<ul style="list-style-type: none"> <li>Less transparency for smaller transactions</li> <li>Liquidity pool split</li> <li>No current tech solution</li> <li>New regulatory approval required</li> <li>Less favourable margin treatment</li> </ul>

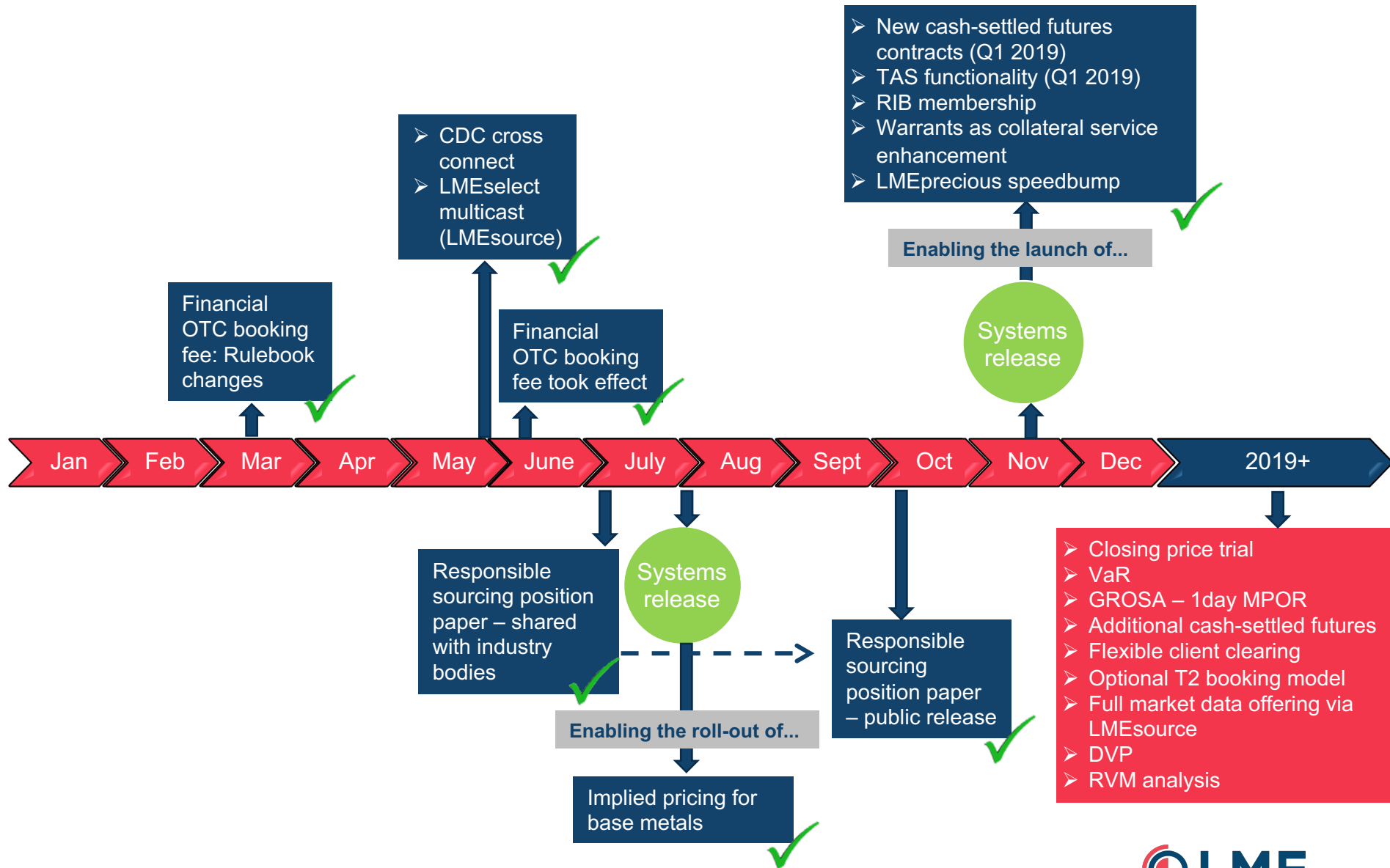
# Market Surveillance

# Market Surveillance

1. Programme of Member visits throughout 2019 and 2020. Discussions will include introduction of key members of the team, outlining the structure and work of LME Market Surveillance, opportunity for Members to raise key issues / topics
2. Thematic Member audits to continue. Currently in the analysis stage of the Trade Surveillance audit. At the end of each audit a key findings / observations summary will be sent to every Member (including those not subject to the audit). Some audits will be educational
3. Investigations function continues to grow. Market Surveillance works with Members to ensure that appropriate systems and controls are implemented. Where enforcement action is considered necessary this will be communicated to the market
4. Continued engagement with Members on LME expectations regarding Member oversight and monitoring of order flow directed to the Exchange by underlying clients (particularly DEA)
5. Member Q&A

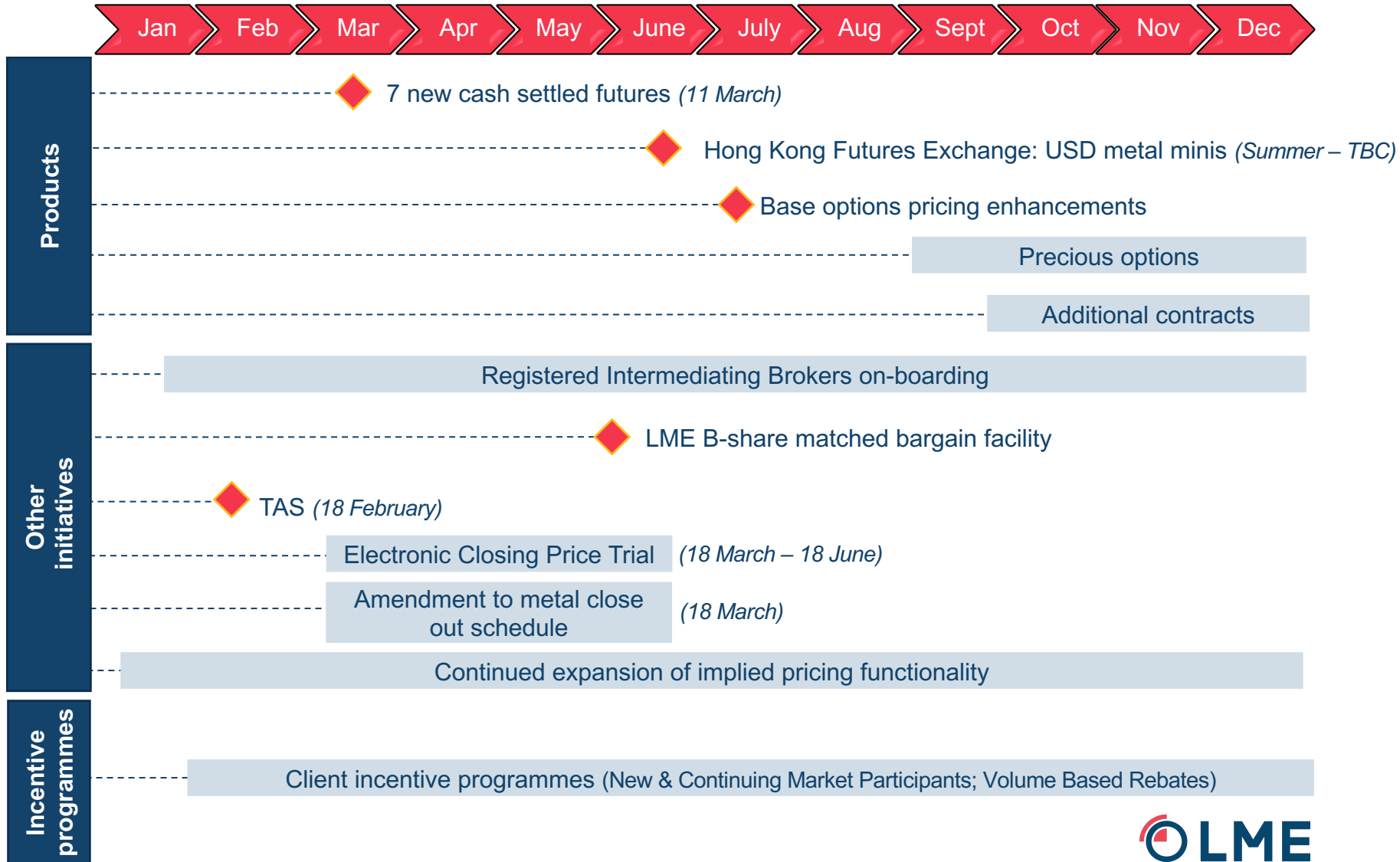
# Strategic Pathway

# 2018 in review



# Key initiatives 2019

No market facing system releases planned this year



# New products complement LME's existing offering

Seven new contracts were launched on 11 March across three product suites

	Current contracts (physical)	Current contracts (cash settled)	New contracts (cash settled)
1. Aluminium	Primary aluminium		EU Duty Unpaid Aluminium Premium
	NAASAC/Aluminium alloy		US Duty Paid Aluminium Premium
	Aluminium premiums		Alumina
2. Ferrous		Steel scrap (cash settled)	HRC N America
		Steel rebar (cash settled)	HRC FOB China
3. Minor metals	Cobalt		Cobalt
	Molybdenum*		Molybdenum

\* Suspended as of 8 March 2019.

# New contracts: Specifications

	LME Steel HRC N. America (Platts)	LME Steel HRC FOB China (Argus)	LME Aluminium Premium Duty Paid US Midwest (Platts)	LME Aluminium Premium Duty Unpaid European (Fastmarkets MB)	LME Alumina (CRU/Fastmarkets MB basket)	LME Molybdenum (Platts)	LME Cobalt (Fastmarkets MB)
<b>Contract code</b>	HU	HC	UP	EA	AM	MD	CB
<b>Contract type</b>	Futures						
<b>Delivery type</b>	Cash settled						
<b>Lot size</b>	10 st	10 mt	25 mt	25 mt	50 mt	2205 lb	1 mt
<b>Contract period</b>	Monthly out to 15 months	Monthly out to 15 months	Monthly out to 15 months	Monthly out to 15 months	Monthly out to 15 months	Monthly out to 15 months	Monthly out to 15 months
<b>Price quotation</b>	USD / short tons	USD / metric tonne	USD / metric tonne	USD / metric tonne	USD / metric tonne	USD / pound	USD / metric tonne
<b>Underlying index</b>	Platts TSI HRC US EXW Indiana	Argus HRC FOB Tianjin China	Platts Aluminum Transaction Premium DDP US Midwest	Fastmarkets MB Aluminium P1020A in-warehouse Rotterdam duty- unpaid	Fastmarkets MB Alumina index, fob Bunbury, Australia (\$ per tonne) / CRU Alumina Price Index	Platts Molybdenum Oxide Daily Dealer (Global) index	Fastmarkets MB Cobalt Standard grade free market \$/tonne in warehouse
<b>Clearable currencies</b>	USD	USD	USD	USD	USD	USD	USD
<b>Termination of trading</b>	Last business day of the contract month						
<b>Daily settlement procedure</b>	LME Trading Operations will calculate daily settlement values based on its published procedure						
<b>Final settlement procedure</b>	Final settlement, following termination of the trading for a contract month, will be based on the arithmetic average of the PRA reported price						
<b>Trading venues</b>	LMEselect (01:00 – 19:00 London Time) and inter-office telephone (24 hours)						
<b>Trading hours</b>	01:00 – 19:00 London Time						
<b>Margining</b>	Realised variation margin applied						



# LME is uniquely positioned to serve the EV industry

New products will complement existing suite of metals contracts

Current  
LME offering

Cobalt	Nickel	Copper	Aluminium
<b>27</b> 58.933 2928 1.7 1495 <b>Co</b> [Ar]3d <sup>7</sup> 4s <sup>2</sup> 8.9 2.3	<b>28</b> 58.6934 2914 1.8 1453 <b>Ni</b> [Ar]3d <sup>8</sup> 4s <sup>2</sup> 8.9 2.3	<b>29</b> 63.546 2563 1.8 1084.6 <b>Cu</b> [Ar]3d <sup>10</sup> 4s 8.96 1.2	<b>13</b> 26.982 2520 1.5 660.25 <b>Al</b> [Ne]3s <sup>2</sup> 3p 2.699 3

New products

**Cobalt  
cash settled**



Launching March 2019




**Lithium  
cash settled**



Targeting H2 2019

Potential new  
products

**Nickel Sulphate**      **Graphite**      **Manganese**

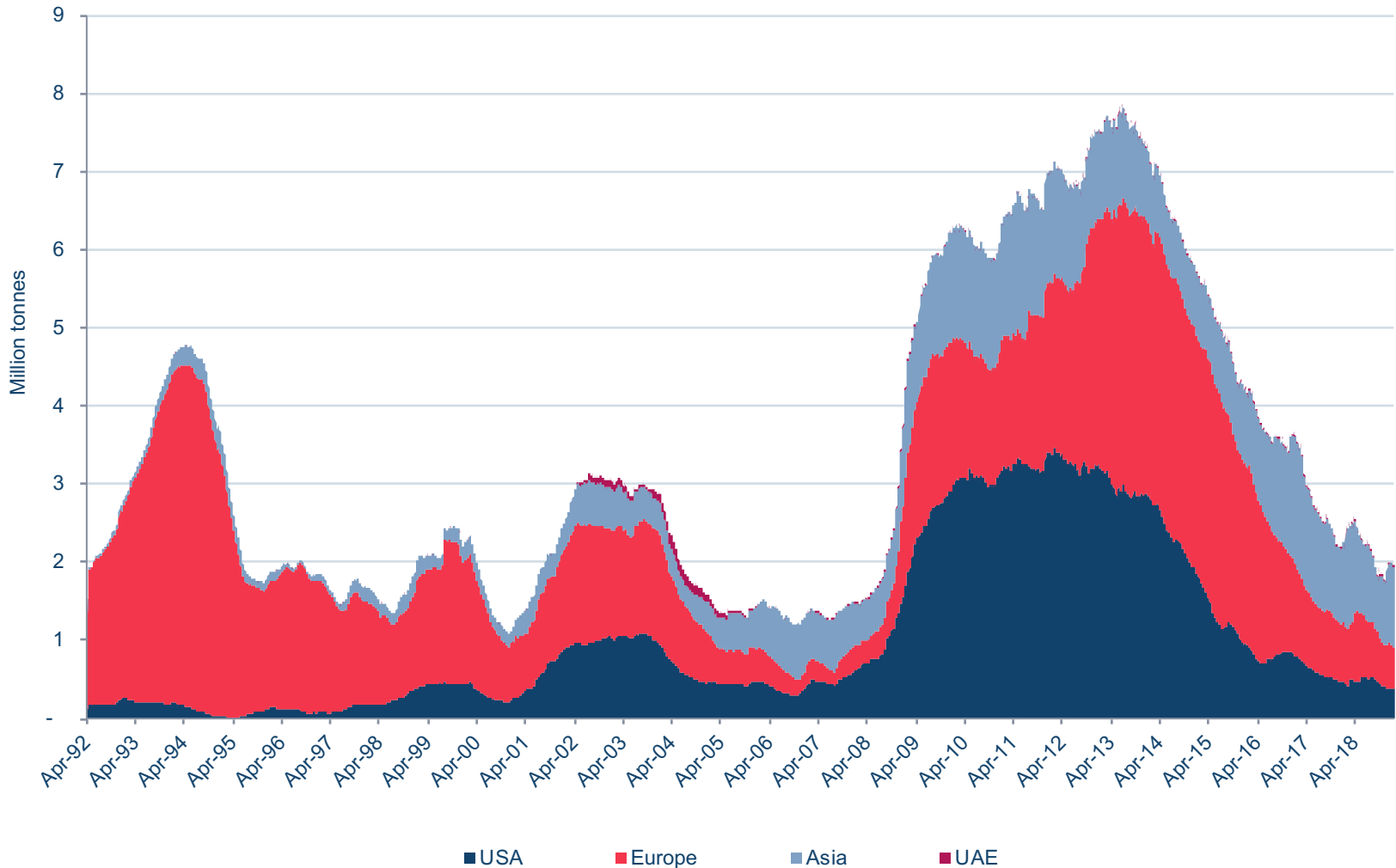


# Rationale for LME warehousing evolving...

LME view is that warehouses attract metal via three routes



# ...leading to pattern of lower stocks...



Data as of 28-Feb-19

# ...providing the context for potential reform

1.

While the LME remains confident that its warehousing rules provide proper protection for market users, warehouses remain core stakeholders and the LME is keen to ensure their businesses remain financially viable

2.

Reform work emerged initially from the Warehousing Committee's consideration of feedback received to the LME's 2017 Strategic Pathway. In response to this feedback Warehouse Committee "sub-forum" (plus independent observers) formulated proposals that (i) achieved broad support from Committee members, and (ii) were consistent with existing safeguards provided

3.

Warehousing Committee agreed with LME's view that it would be appropriate to seek feedback on the proposals that were developed by the "sub-forum", and largely accepted by the Committee, from the broader market through a discussion paper, which the LME agreed to draft

4.

Discussion Paper proposals are those of the Committee, aside from Section 5 of the paper which comprises additional proposals put forward by the LME. LME now invites feedback on all the proposals and have made no prior decisions on the final outcome

# Strategic proposals



## Load-out rules

Proposal to extend QBRC to 80 days before rental charges no longer levied on queued metal



## Evergreen rent deals

Possibility of terminating rent share agreements by cancellation or notice rather than by load-out



## Rent reductions

Gather feedback on potentially reducing rent and Free on Truck (FoT) rates

# Operational proposals



## Electronic certificates of analysis (“CoA”)

Possibility of mandating the electrification of CoAs



## Clarification to the definition of “load-out”

A potential amendment to load-out definition to add flexibility to load-out requirements



## Free on Truck (“FoT”) charges currency denomination

Seek clarification on converting FoT charge denomination from local currency to USD

# LME proposals



## Eligible stock reporting

Potential to require reporting of LME-warrantable stock stored off-warrant in LME-listed sheds



## Changes to cancelled metal reporting in the daily stock report

Distinguish in reporting between: “cancelled – scheduled” and “cancelled – not scheduled for load out”



## Eligible copper – requirement for producer batch reference

Mark producer batch reference on the top cathode in each bundle

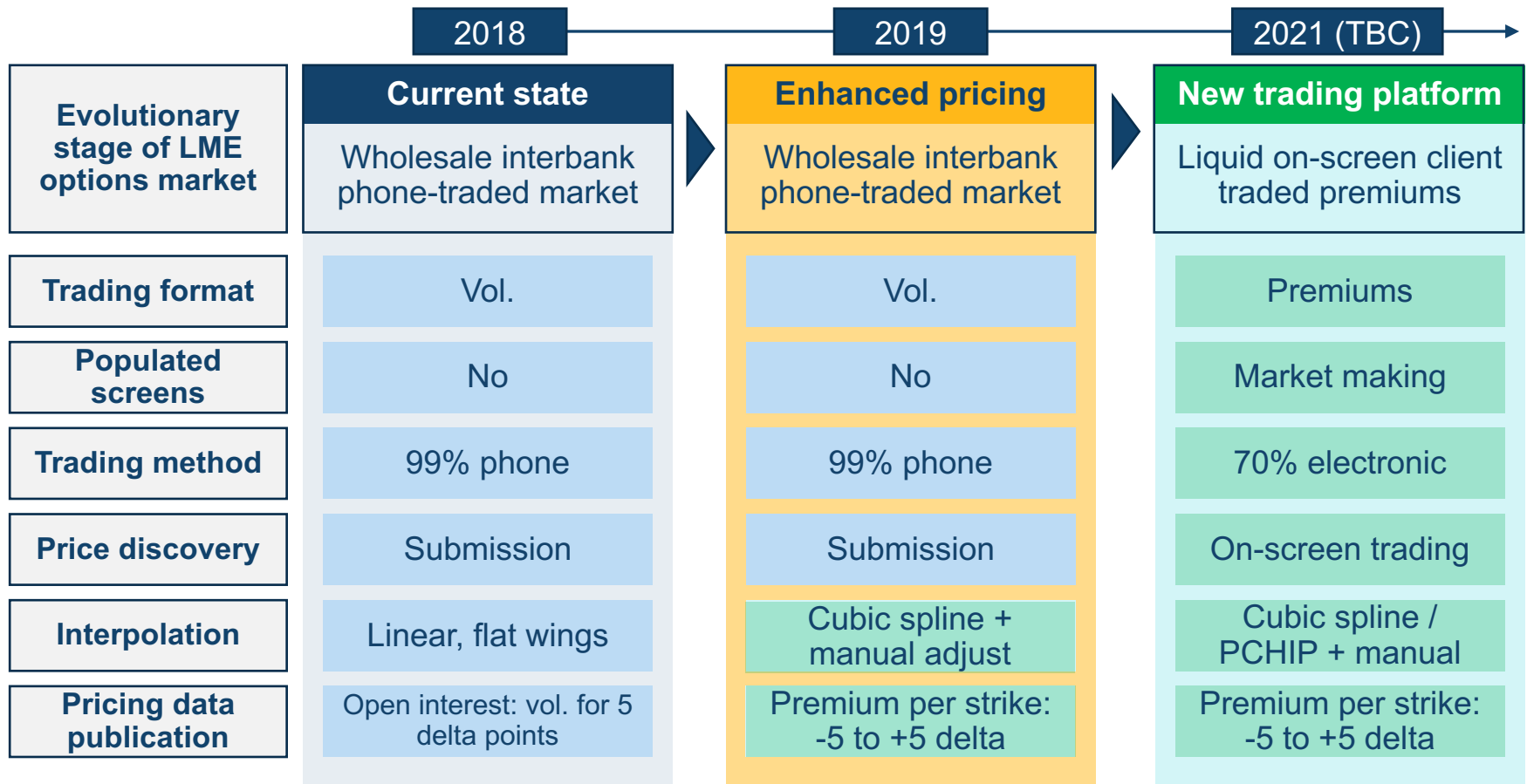
# Next steps in LME Warehousing





# Pathway for LME options market evolution

Enhancements to options pricing will be implemented on the current platform, but major changes may require a new trading platform

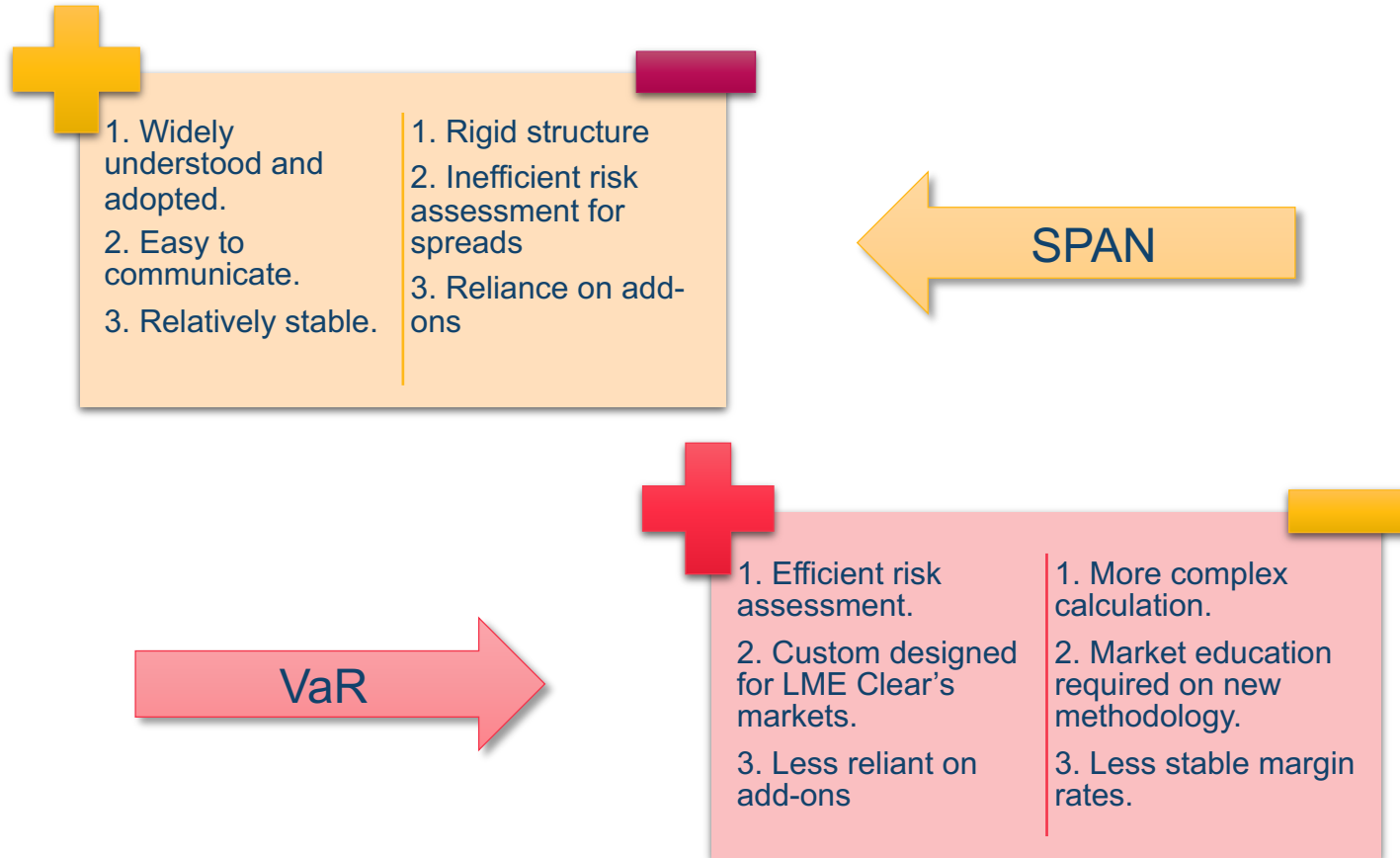


# Infrastructure roadmap – key developments

		<u>Benefits</u>
<b>New trading platform</b>	<i>Entirely new architecture, leveraging HKEX technology</i>	<ul style="list-style-type: none"><li>• Higher performance capability, enabling premium quoted options, and more implied pricing</li><li>• More stable and reliable latency</li><li>• More dynamic, allowing future changes</li></ul>
<b>New GUI</b>	<i>Entirely new front-end GUI for Members and Clients</i>	<ul style="list-style-type: none"><li>• Web based, less resource heavy</li><li>• Easier to update, adding new functionality or products without a software update</li><li>• Able to be white-labelled by Members to give to their Clients</li></ul>
<b>Market data platform</b>	<i>Rationalised market data offering, retiring legacy systems</i>	<ul style="list-style-type: none"><li>• Maximise use of LMEsource for low latency data</li><li>• Additional offerings for less latency sensitive data</li><li>• Standardisation of market data approach to ease use for Members, ISVs, and data vendors</li></ul>
<b>VaR</b>	<i>Updated margin calculation methodology, better suited to the LME market</i>	<ul style="list-style-type: none"><li>• VaR calculations are more accurate than SPAN</li><li>• More efficient, particularly for portfolios of spread risks (as is common on the LME)</li><li>• More dynamically reacts to changes in the market, ensuring appropriate margin levels</li></ul>

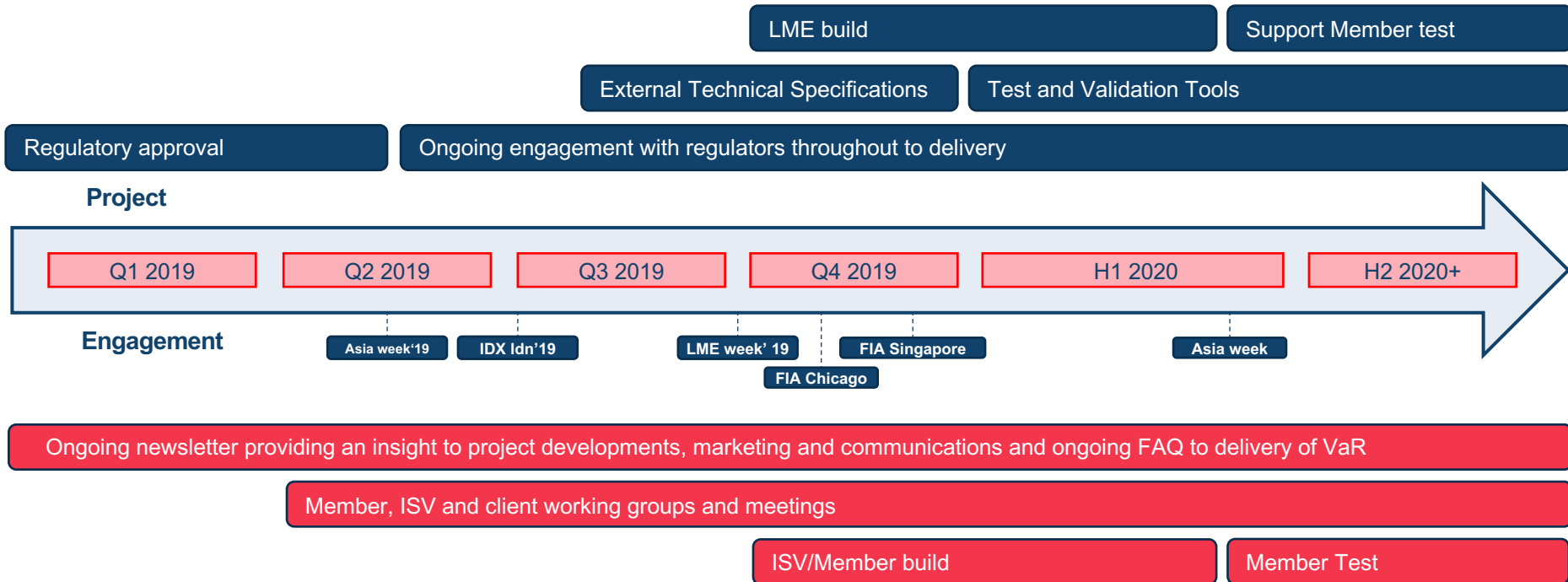
# Value at Risk

A custom designed VaR model for LMEC can improve both risk efficiency and scalability.



# Indicative LME Clear VaR timeline

High-level outline of the project/communication pathway for VaR



# Responsible sourcing: drivers for action

## 1. Ethical responsibilities



- We believe industry has an ethical imperative to embrace principles of responsible sourcing
- LME is a seller's market, which means that a buyer of metal may be delivered metal of any LME brand. We cannot accept a situation where consumers are required to take delivery of metal which is not responsibly sourced

## 2. Commercial



- Fundamental service of LME is to price metals and the LME price will generally be the price of the least-valuable brand in the brand lists
- We must act to ensure our price reflects the value of responsibly sourced metal, and is not artificially depressed by metal which is not

## 3. Providing leadership



- LME has listened to calls to take a leading role. These calls arise because the LME can most efficiently promote a centralised process
- We do this in a way that leverages our knowledge of the market, respects logistical challenges, builds on existing work, and provides appropriate support to producers

# Core features of LME approach



## Utilising twin tools of transparency and standards

- Transparency allowing consumers to understand the steps brands take but also utilised fairly in a phased approach so producers are not disadvantaged
- Use of standards, that alone could lead to “greenwashing” but combined with transparency represents an optimised toolbox to protect consumers



## No discrimination between large-scale and artisanal/small-scale mining

- Both LSM and ASM carry differing risks. In acknowledging these risks, we do not favour any specific form
- Risk assessment must be tailored to circumstances, therefore we set out to provide equally meaningful protections



## Building on well-established work in the sector

- Approach is grounded in the globally relevant OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas and allows brands to make use of existing standards

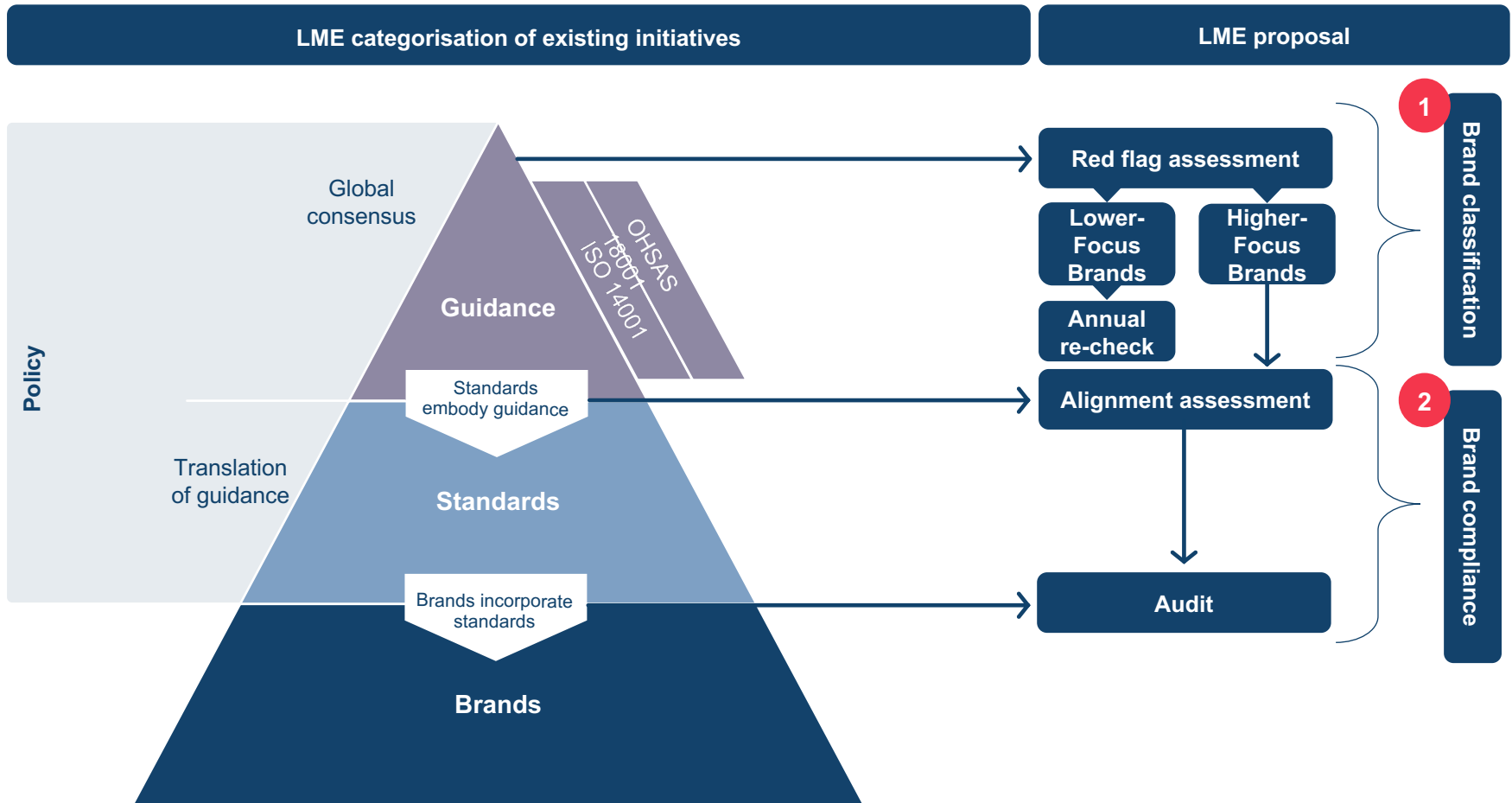


## Defining a pragmatic and clear process

- Approach aimed at feasibility for global producers of all metals, ensuring that requirements (in respect of both transparency and standards) are clear and achievable

# Responsible sourcing

Consultation published 23 April 2019, closes 30 June 2019



# Disclaimer

© The London Metal Exchange (the "LME"), 2019. The London Metal Exchange logo is a registered trademark of The London Metal Exchange.

All rights reserved. All information contained within this document (the "Information") is provided for reference purposes only. While the LME endeavours to ensure the accuracy, reliability and completeness of the Information, neither the LME, nor any of its affiliates makes any warranty or representation, express or implied, or accepts any responsibility or liability for, the accuracy, completeness, reliability or suitability of the Information for any particular purpose. The LME accepts no liability whatsoever to any person for any loss or damage arising from any inaccuracy or omission in the Information or from any consequence, decision, action or non-action based on or in reliance upon the Information. All proposed products described in this document are subject to contract, which may or may not be entered into, and regulatory approval, which may or may not be given. Some proposals may also be subject to consultation and therefore may or may not be implemented or may be implemented in a modified form. Following the conclusion of a consultation, regulatory approval may or may not be given to any proposal put forward. The terms of these proposed products, should they be launched, may differ from the terms described in this document.

Distribution, redistribution, reproduction, modification or transmission of the Information in whole or in part, in any form or by any means are strictly prohibited without the prior written permission of the LME.

The Information does not, and is not intended to, constitute investment advice, commentary or a recommendation to make any investment decision. The LME is not acting for any person to whom it has provided the Information. Persons receiving the Information are not clients of the LME and accordingly the LME is not responsible for providing any such persons with regulatory or other protections. All persons in receipt of the Information should obtain independent investment, legal, tax and other relevant advice before making any decisions based on the Information.

LME contracts may only be offered or sold to United States foreign futures and options customers by firms registered with the Commodity Futures Trading Commission (CFTC), or firms who are permitted to solicit and accept money from US futures and options customers for trading on the LME pursuant to CFTC rule 30.10.

"The Platts Steel Rebar FOB Turkey" and "Platts TSI HMS 1/2 80:20 CFR Turkey" assessments ("**Platts Assessments**") are products of S&P Global Platts, a Division of S&P Global Inc., and has been licensed for use by The London Metal Exchange. "Platts®", "S&P Global Platts™" and "TSI®" (the "Platts Marks") are trademarks of S&P Global Inc., its affiliates and/or its licensors and have been licensed for use by The London Metal Exchange. LME Steel Scrap and LME Steel Rebar ("Contracts") are not sponsored, endorsed, sold or promoted by S&P Global Platts or its affiliates or licensors. S&P Global Platts, its affiliates and licensors make no representation or warranty, express or implied, regarding the Contracts or regarding the advisability of investing in securities or commodities generally or the ability of the Platts Assessments to track general market performance or commodity price movements, nor do S&P Global Platts, its affiliates and licensors have any liability for any errors or omissions in, or interruptions of, the Platts Assessments or the Contracts. S&P Global Platts', its affiliates' and licensors' only relationship to The London Metal Exchange with respect to the Platts Assessments is the licensing of the Platts Assessments and of certain trademarks, service marks and/or trade names of S&P Global Platts, and/or its affiliates or licensors. The Platts Assessments are determined, composed and calculated by S&P Global Platts without regard to The London Metal Exchange or the Contracts. S&P Global Platts, its affiliates and licensors have no obligation to take the needs of The London Metal Exchange or any clients or users of the Contracts into consideration in determining, composing or calculating the Platts Assessment. S&P Global Platts, its affiliates and licensors have no obligation or liability in connection with the creation, development, preparation, marketing, sale and/or trading of the Contracts.

S&P GLOBAL PLATTS, ITS AFFILIATES AND LICENSORS DO NOT GUARANTEE THE ADEQUACY, ACCURACY, TIMELINESS OR COMPLETENESS OF THE PLATTS ASSESSMENT OR ANY DATA INCLUDED THEREIN OR ANY COMMUNICATIONS, INCLUDING BUT NOT LIMITED TO, ORAL OR WRITTEN COMMUNICATIONS (INCLUDING ELECTRONIC COMMUNICATIONS) WITH RESPECT THERETO. S&P GLOBAL PLATTS, ITS AFFILIATES AND LICENSORS SHALL NOT BE SUBJECT TO ANY DAMAGES OR LIABILITY FOR ANY ERRORS, OMISSIONS OR DELAYS THEREIN. S&P GLOBAL PLATTS, ITS AFFILIATES AND LICENSORS MAKE NO EXPRESS OR IMPLIED WARRANTIES, AND EXPRESSLY DISCLAIM ALL WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE OR AS TO RESULTS TO BE OBTAINED BY THE LICENSEE, CLIENTS OR USERS OF THE CONTRACT, OR ANY OTHER PERSON OR ENTITY FROM THE USE OF THE PLATTS ASSESSMENT OR CONTRACT OR WITH RESPECT TO THE PLATTS MARKS, THE PLATTS ASSESSMENT OR ANY DATA INCLUDED THEREIN. WITHOUT LIMITING ANY OF THE FOREGOING, IN NO EVENT WHATSOEVER SHALL S&P GLOBAL PLATTS, ITS AFFILIATES AND/OR ITS THIRD PARTY LICENSORS BE LIABLE FOR ANY INDIRECT, SPECIAL, INCIDENTAL, PUNITIVE OR CONSEQUENTIAL DAMAGES, INCLUDING BUT NOT LIMITED TO, LOSS OF PROFITS, TRADING LOSSES, LOST TIME OR GOODWILL, EVEN IF THEY HAVE BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES, WHETHER IN CONTRACT, TORT, STRICT LIABILITY OR OTHERWISE."



# SB notes from LME Roundtable:

*Brexit pos transfer fee cap. Members haven't made many transfers so far. Current cap expires today, so LME will need to look at re-establishing.*

*Pre trade transparency – LME are considering a path to adopting option 3.*

*New cash settled contracts have had good take up (Cobalt etc.). The new standardized LME structure means they can launch new contracts quicker and at lower cost to the members.*

*HK USD mini contracts due for launch in June.*

*LME want feedback on how members see the trial of electronic closing prices going.*

*Client incentive program - 50% fee rebate for new participant will go on for over a year. Any prop trader can apply for existing volume related fee rebates.*

*LME are at the early stages of building a new version of LME Select to be ready for 2021. Will be enhanced for electronic options market. Will leave off HKMX cash equities tech/framework to build a derivatives platform. The platform will be designed for the uniqueness of the LME and allow members to work bids on 3 month carries better. Will have a new GUI. Members will be able to offer this to their clients.*

*Work ongoing on LME data platform will be used more with new trading platform, LME Source.*

*The new LME VaR margin model will incorporate more features that are currently 'add-ons' within the core margin calculation than SPAN does and therefore should allow CMs to pass on concentration charge more easily to clients. There will still be add-on needed even in the VaR world. Re attribution of default fund requirements to clients – this won't be addressed by the new VaR model. Default fund calc is separate to the IM calc.*

*LME Market Surveillance team will be going out to meet the members. If CMs are interested, please let the LME know.*

*Will be giving reports that are generated from member audits back to the market. Educational audits.*

*DPRS phase out – no significant progress. Not enough info in CPR to replace DPRS. Might include LEIs to avoid pre notification.*

*Do LME still operate regular member meetings from market surveillance and LME RMs? Hiatus at present but LME want to resurrect this.*

*LME 10 min rule is a requirement. Cannot use just use UNA. There are increased charges for reversals and cancelations. The round table wants LME to have another look at UNA charges for give-ups.*

*When will LME start enforcing the 10-minute rule and levy charges. LME – there will be no 12% leeway on the 10min rule. They will be making some changes to the 'Lips' report. LME will want to see improvements to member performance otherwise they will act. Will take a pragmatic approach to the 10min rule where there is zero % leeway. Will reach out to members who have poor performance to understand why. They need to see data on behavior on UNA.*

*LME will take the feedback on UNA fees, but they have seen members using UNA for purposes that it wasn't intended for.*