

To: All Members and other interested parties

Ref: 15/254 : A248

Date: 10 August 2015

Subject: **INTRODUCTION OF LIQUIDITY PROVIDER AND NEW MARKET PARTICIPANT PROGRAMMES**

## Summary

1. This Notice confirms the introduction of the Exchange's Liquidity Provider Programme and New Market Participant Programme (together, the "Programmes"), and includes the relevant criteria for qualification, the commencement date, the relevant rebates, the application process, the rebate process and certain other information.
2. The Liquidity Provider Programme will commence on 10 August 2015. Application forms will be available from 10 August 2015 from sales@lme.com and on the LME website.
3. The New Market Participant Programme will commence on 1 September 2015. Application forms will be available from 10 August 2015 from sales@lme.com and on the LME website.

## Background

4. Following the end of the consultation set out in LME Notice 15/163 : A159 dated 26 May 2015 (the "Consultation"), Notice 15/241 : R003 dated 31 July 2015 (the "Decision Notice") confirmed the introduction into the Rules and Regulations of the LME (the "Rulebook") of certain overarching provisions relating to incentive programmes. The Programmes shall be subject to the provisions relating to incentive programmes set out in the Rulebook.
5. LME Notice 15/164 : A160 set out details of the planned Programmes, subject to the Consultation. Following the closing of the Consultation and the issuance of the Decision Notice, this Notice confirms the introduction of the Programmes. The Programmes are expected to encourage increased liquidity on LMEselect, which the LME believes will, in turn, increase liquidity in its 3-month and outright third Wednesday metal Futures Contracts as part of the roadmap set out in the LME Notice 15/023 : A023.
6. The Liquidity Provider Programme and the New Market Participant Programme shall apply to trading in Metal Futures Contracts with a 3-month or third Wednesday prompt date structure. References in this memo to "eligible Contracts" are only to Contracts meeting these criteria.
7. Terms not otherwise defined in this Notice shall have the meaning ascribed to them in the Rulebook.



## **A. Overview of Programmes**

### ***Liquidity Provider Programme***

8. Members will be eligible for the Liquidity Provider Programme in respect of eligible Client Contracts which are entered into the Matching System as a result of an order placed through the LMEselect API order routing system by Clients which are Proprietary Trading Firms (as per the definition in paragraph 10 below).
9. The determination of eligibility for the Programmes is subject to the sole discretion of the LME and the LME retains the right to decline to accept any Client into the Programmes where it does not believe it satisfies the relevant criteria.
10. A Proprietary Trading Firm is a legal entity, the principal commercial business of which is to undertake trading activity on its own account in specified investments (where specified investments have the definition given in the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001) and where it satisfies the following conditions:
  - (a) all trading is done using capital beneficially owned by the relevant entity;
  - (b) all trading must be done electronically by owners, employees, members or contractors of the relevant entity on behalf of the relevant entity;
  - (c) the relevant entity may not combine trading its own capital with trading of capital held on behalf of third parties;
  - (d) all profits and losses are booked to accounts beneficially owned by the relevant entity; and
  - (e) net profits and losses received as a result of the trading activity will appear on the balance sheet and form part of the accounting of the relevant entity whether or not such profits or losses are retained by the entity.
11. By way of derivation from the above definition, where a Client is a hedge fund / commodity trading advisor with a proprietary trading desk, it will generally be deemed to fall within the definition of a Proprietary Trading Firm in respect of the activities of that desk.
12. For the avoidance of doubt, firms undertaking in-house hedging business which is ancillary to their main commercial business will not meet the definition of a Proprietary Trading Firm.

### ***New Market Participant Programme***

13. Members will be eligible to benefit from the New Market Participant Programme in respect of eligible Contracts which are Client Contracts entered into the Matching System as a result of trades initiated by individual traders acting for a Client that is a Proprietary Trading Firm (as defined in paragraph 10 above), provided the criteria set out in paragraph 14 below are met.
14. The individual trader must satisfy the following conditions:
  - (a) He/she has not previously traded eligible Contracts for which they wish to register (this includes trading at previous firms); and
  - (b) His/her principal activities must include trading futures on a discretionary basis for the proprietary account of his/her employer.



## B. Rebates

15. A Member is able to receive rebates in respect of:
- (a) Eligible Contracts which are Client Contracts satisfying the criteria under the New Market Participant Programme; and
  - (b) Eligible Contracts which are Client Contracts satisfying the criteria under the Liquidity Provider Programme.
16. The Member will benefit from rebated trading and clearing fees attributable to the relevant eligible Contracts for which they are registered.

### ***Liquidity Provider Programme***

17. Under the Liquidity Provider Programme, Members will receive the following rebates in respect of Client Contracts for outright 3-month and outright third Wednesday Metal Futures Contracts only, that:
- (a) arise as a result of a trade placed on LMEselect;
  - (b) are for aggregate business in aluminium, copper and zinc; and
  - (c) are initiated by Clients that meet the criteria set out in paragraphs 8 to 12 above,
- based on the following volume thresholds:

<b>Volume thresholds for 3-month Contracts (lots traded per month)</b>	<b>Total fee including rebate per side per lot (USD, including trading &amp; clearing)<sup>1</sup></b>	<b>Total rebate in respect of per lot trading fee (USD)</b>	<b>Total rebate in respect of per lot clearing fee (USD)</b>
0-10,000	2.70 (current client headline)	0.00	0.00
10,001-25,000	2.50	0.14	0.06
25,001-50,000	2.30	0.29	0.11
50,001-140,000	2.10	0.43	0.17
140,001-200,000	1.90	0.58	0.22
Over 200,000	0.90	1.30	0.50

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<sup>1</sup> Note amounts shown in this column include the Client Contract fee of USD 1.80 (charged at USD 0.90 per leg, prior to the application of any rebate) plus an Exchange Contract (USD 0.90). The rebate is applied in respect of the Client Contracts only. The amount payable for the Exchange Contract (USD 0.90) is included in each row in this column for the sake of completeness.



<b>Volume thresholds for Third Wednesday Contracts (lots traded per month)</b>	<b>Total fee including rebate per side per lot (USD, including trading &amp; clearing)<sup>1</sup></b>	<b>Total rebate in respect of per lot trading fee (USD)</b>	<b>Total rebate in respect of per lot clearing fee (USD)</b>
0-2,000	2.70 (current client headline)	0.00	0.00
2,001-3,000	2.20	0.36	0.14
3,001-4,000	1.70	0.72	0.28
4,001-5,000	1.20	1.08	0.42
Over 5,000	0.90	1.30	0.50

18. The rebates specified above will be available in respect of Client Contracts related to outright LMEselect trades only; no rebate will be available for Ring/kerb/basis trades, give-up trades or carry trades.
19. By way of explanation, taking the second line of the first table above as an example:
  - (a) the current total trading and clearing fee for an outright Client Contract (together with the accompanying Exchange Contract) generated through LMEselect is USD 2.70 per lot;
  - (b) the rebate, where the relevant individual trader trades above 10,000 and below 25,000 lots, would be USD 0.20, which shall be applied to the Client Contract; and
  - (c) the total trading and clearing fee payable for each trade would be USD 2.50 per lot.
20. The Liquidity Provider Programme rebate is not a 'cliff edge' programme. Rather, the total rebate is calculated based on the volume traded, per threshold level.
21. Below the initial threshold (10,000 contracts for 3-month and 2,000 contracts for 3rd Wednesday), no rebates are awarded.
22. In order to clarify further the rebate calculation, the LME will make available a 'rebate calculator' on lme.com in due course.
23. Subject to paragraph 25 below, where written approval is granted on or before the 14<sup>th</sup> day of a month, the trading period will be deemed to have commenced on the first trading day of that month and all rebates shall be dated back accordingly.
24. Subject to paragraph 25 below, where written approval is granted on or after the 15<sup>th</sup> day of a month, the trading period shall commence on the first trading day of the following month.
25. Where written approval is granted during August 2015, the trading period will be deemed to have commenced on the 10 August 2015.

### ***New Market Participant Programme***

26. Under the New Market Participant Programme, Members registering Client Contracts for outright 3-month and outright third Wednesday Metal Futures Contracts only, in respect of trades initiated by individual traders acting for Clients that meet the criteria set out in paragraphs 13 and 14 above, will receive the following rebates in respect of eligible Contracts:



- (a) a rebate of 100% of trading and clearing fees for the first six months of trading;
- (b) a rebate of 75% of trading and clearing fees between six months and nine months; and
- (c) a rebate of 50% of trading and clearing fees between nine and 12 months.

- 27. The commencement of the relevant period is dependent on the date on which the Client is approved as eligible for the Programme.
- 28. The rebates specified above will be available in respect of Client Contracts related to outright LMEselect trades only; no rebate will be available for Ring/kerb/basis trades, give-up trades or carry trades.
- 29. A Member may only benefit once from the New Market Participant Programme in respect of Client Contracts initiated by any individual trader. After the expiration of the 12-month period, the Member will not be able to benefit from any further Client Contracts initiated by that individual trader (even if the individual trader moves firms).
- 30. Subject to paragraph 32 below, where written approval is granted on or before the 14<sup>th</sup> day of a month, the trading period will be deemed to have commenced on the first trading day of that month and all rebates shall be dated back accordingly.
- 31. Subject to paragraph 32 below, where written approval is granted on or after the 15<sup>th</sup> day of a month, the trading period shall commence on the first trading day of the following month.
- 32. Where written approval is granted during August 2015, the trading period will commence on the 1 September 2015.

### **C. Application Process**

- 33. Application forms will be available from the dates specified in paragraphs 2 and 3 above and can be requested from the LME sales team at sales@lme.com.
- 34. The Member shall complete the application form and provide all relevant information which the Exchange shall require in respect of the relevant Client entity or individual. It is the responsibility of the Member to ensure that all information included on the application form is complete and correct. Incorrect information will affect and possibly lengthen the application process and could affect payments under the relevant Programme. The provision of false or misleading information may lead to disciplinary action under the Rulebook.
- 35. The Exchange's decision as to whether an application meets the criteria for the relevant Programme and should be approved shall be final and binding.

### **D. Rebate Process**

- 36. The Exchange shall be under no obligation to correct any underpayment of fee rebates resulting from inaccurate applications.
- 37. The Exchange shall use a FIX key, issued to the applicants, alongside an LMEselect FIX tag 58 to track participants' trading volume. Users must ensure that both the FIX key and the FIX tag 58 Client code used for order entry match the Client code on the application exactly. Traded volume transacted through a different FIX key and FIX tag 58 will not be included. New Market Participants will need to use a different FIX tag 58 Client code than that of existing traders' FIX



tag 58 Client code used for the Liquidity Provider Programme. The LME will add multiple FIX tag 58 Client codes when calculating group<sup>2</sup> order to trade ratio.

38. The Exchange will group traded volumes from different Client legal entities into the group<sup>3</sup> holding company for both Liquidity Provider Programmes and New Market Participant Programmes.
39. If a registered participant makes changes to the FIX key and / or the FIX Tag 58 or clearing arrangements which were detailed in the application form, it is the responsibility of the Member to provide the Exchange with formal notification of amendments at least two weeks before the amendment. Changes made with less than two weeks' notice (starting the business day after the notice is given) will not be included in the rebate.
40. Exchange fees will be billed to the Member as currently. The Exchange will then calculate the rebates due to the Member the following month. Rebates will be credited to Members' accounts two months from when the rebates were traded. For example, trades registered in January will be calculated in February and credited in March.
41. Under both the Liquidity Provider Programme and the New Market Participant Programme, the LME will not calculate rebates in respect of Client Contracts initiated by Clients who trade through multiple Members. The application form will ensure each Client under the Liquidity Provider Programme is associated with one Member only. Only those Client Contracts initiated by such Clients through that single Member will qualify for the relevant rebates.

#### **E. Rulebook**

42. The Programmes shall be subject to the terms and conditions set out in the Rulebook, including, without limitation, Regulation 17 of Part 2 of the Rulebook.

#### **F. Limits, term and termination**

43. The Exchange reserves the right to limit the number of participants in each of the Programmes or include other such limits, restrictions or conditions as it may specify by Notice from time to time.
44. When the 3-month prompt date is the same as the third Wednesday of the month, traded volume on this day will be included in the 3-month threshold.
45. The Programmes shall be available for an initial term of 12 months<sup>4</sup>. The Exchange shall specify by Notice prior to the expiration of the initial term whether it intends to extend the duration of either or both Programmes. Any extension of the duration of either or both Programmes will depend on, amongst other things, regulatory approval.

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<sup>2</sup> "group" includes:

- any holding company or subsidiary company of a company;
- any company which is a subsidiary company of any holding company of that company

The expressions holding company and subsidiary company shall have the meanings assigned to them by Section 1159 of the Companies Act 2006.

<sup>3</sup> "Group" is defined as above.

<sup>4</sup> For example if the initial term is not extended, and an applicant is accepted onto the New Market Participant Programme one month prior to expiration of the initial term, the applicant will only benefit from the New Market Participant Programme for one month



46. Without prejudice to the above paragraph, the Exchange reserves the right with or without notice to restrict, suspend or terminate the Programmes at any time by Notice.

**G. No direct relationship between the Exchange and client**

47. The benefits under the Liquidity Provider Programme and the New Market Participant Programme are made available by the Exchange to the relevant Member. It is the responsibility of the Member and the relevant Clients to determine between them the basis and extent to which any benefits under these Programmes may be passed on to the relevant Client or individual trader. The Exchange has no responsibility to any Client or individual trader for any passing on of such benefits by the Member. In the event that any Client or individual trader does not receive the benefit of any rebate made available by the Exchange to a Member, this is solely a matter between the Member and the relevant Client or individual trader, and no party shall have any claim or right of recourse against the Exchange.

**H. Questions**

48. Members or other interested parties with any questions in respect of the Programmes are invited to contact the LME Sales team by email at [sales@lme.com](mailto:sales@lme.com).

A handwritten signature in black ink, appearing to read 'Paul MacGregor'.

**Paul MacGregor**  
**Head of Sales**

cc: Board directors  
All metals committees  
Trading Committee  
Ring Dealers Committee  
Warehousing Committee  
Physical Market Committee