

To: All Members and other interested parties

Ref: 15/264 : A257

Date: 20 August 2015

Subject: **INTRODUCTION OF LME MARKET MAKING PROGRAMMES**

Summary

1. This Notice confirms the introduction of the Exchange's market making programmes for copper, aluminium and zinc, and includes the relevant criteria for qualification, the commencement date, the relevant rebates, the pre-application and application process, the rebate process and certain other information.

Background

2. As communicated to LME Members via Notice 15/023 : A023 on 14 January 2015, it is the Exchange's intention to enhance participation and liquidity on the LME via certain incentive programmes. This Notice sets out details of the incentive programmes for market makers in the Exchange's existing copper, aluminium and zinc contracts. The Exchange has also launched other incentive programmes, including new market participant and liquidity provider programmes (as described in Notice 15/254 : A248), and will also introduce incentive programmes for its new contracts – aluminium premiums and steel; these will be covered by separate notice.
3. Subject to regulatory approval from the Financial Conduct Authority, the Exchange will introduce market making programmes for copper, aluminium and zinc on 1 October 2015 for the following outright dates and carries:
 - (a) outright third Wednesday;
 - (b) third Wednesday to third Wednesday; and
 - (c) third Wednesday to/from three month.
4. The market making programmes will apply to trading on LMEselect only.
5. The Exchange will run a shortlisting process from 20 August 2015 to 8 September 2015 to shortlist designated market makers ("Market Makers") for each one of the programmes identified in paragraph 3 above. Members or their Clients may be Market Makers. Further details on the shortlisting and selection process are given below.
6. The initial duration of the programmes is expected to be 12 months commencing on 1 October 2015.



7. Market Makers may be eligible for rebates and stipends under the market making programmes. Further details of these incentives are given at paragraphs 23-30 below.
8. The Exchange reserves the right to review and revise the market making parameters for the programmes every six months, or more frequently if required. The Exchange also reserves the right to terminate a programme with or without notice.
9. Terms not otherwise defined in this Notice shall have the meaning ascribed to them in the Rulebook.

Application process

Submission of proposals

10. There are up to a maximum of 5 market making slots available for each metal for each of the market making programmes described in paragraph 3.
11. All interested parties are eligible to bid to become Market Makers in one or more of the programmes for all of the metals.
12. Interested parties are required to submit full details of their market making proposals to the LME sales team at sales@lme.com by 9am (London time) on 8 September 2015. Interested parties are required to provide the following parameters for each market making programme for which they wish to be considered:
 - (a) the market making programmes being applied for (outright third Wednesday; third Wednesday to third Wednesday and third Wednesday to/from three month);
 - (b) the metals for which they wish to act as Market Maker;
 - (c) the hours during which they can be present on LMEselect;
 - (d) the percentage of those hours they will be able to provide two-way symmetrical continuous quotes of a specified spread and minimum lot size;
 - (e) the spread size; and
 - (f) the minimum lot size.(together, the “Market Making Parameters”.)
13. All proposals must be supported with evidence that the firm has the ability (including internal technical systems, controls and infrastructure) to fulfil the Market Making Parameters outlined in its submission. Where an LME Member is applying on behalf of its Client, the Member must also demonstrate that it (the Member) has the ability (including internal technical systems, controls and infrastructure) to support the relevant Market Making Parameters.
14. Interested parties are invited to review the Exchange’s preferred Market Making Parameters set out at Appendix 1 (“LME Market Making Parameters”) and are requested to either exceed or match these parameters as closely as possible.



15. Proposals can be submitted on behalf of a sole legal entity or on behalf of several companies provided that they are all within the same corporate group¹. Any interested party that is not a Member must submit their proposals through an LME Member.

LME shortlisting process

16. The Exchange will base its shortlisting process on the following objective criteria:
- (a) Whether the applicant can exceed the LME Market Making Parameters;
 - (b) Where not exceeded, the alignment between the commitments made in the applicant's Market Making Parameters and the LME Market Making Parameters; and
 - (c) The evidence provided to demonstrate the applicant's ability to meet the commitments proposed in the Market Making Parameters on a regular basis.

Application process

17. The Exchange will contact the shortlisted market makers by 5pm (London time) on 10 September 2015 (or such other date as is announced by Notice) and will send the shortlisted applicant (or its nominated Member where appropriate) an application form to complete. The application form will also be made available on the LME website.
18. The Member shall complete the application form and provide all relevant information which the Exchange shall require in respect of the Member or the relevant Client entity, as appropriate. 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.
19. The decision of the Exchange will be made after the application process outlined at paragraphs 17-18 above and subject to the Exchange being satisfied as to the ability of the applicant and, where appropriate, its Member, to fulfil the Market Making Parameters outlined in its proposals.
20. However, subject to the regulatory requirements applying to the Exchange, the final selection of the Market Makers for each programme will be at the sole discretion of the Exchange and the Exchange retains the right to select or decline any Member or Client for the programmes.
21. The Exchange will notify the market by way of Notice once the successful applicants have been selected. The Notice will include details of the Market Making Parameters

¹ "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.



for each selected Market Maker. The Notice will also be made available on the LME website. Unless instructed otherwise by the successful applicant, names of successful applicants will be disclosed in the Notice.

22. The Exchange reserves the right to re-open the application process if and when certain Market Makers cease to fulfil their market making obligations.

Payment process

23. Market Makers, or (where the Market Maker is a Client) the Market Maker's specified Member, will be eligible to receive a full rebate of all trading and clearing fees charged by the Exchange for the Contracts resulting from the Market Maker's market making activities, together with a monthly stipend for each programme for which a market maker acts as Market Maker to aid technology and personnel costs. Trading and clearing fee rebates shall apply to all trades which form part of the Market Maker's market making activities from 1 October 2015.
24. The Exchange shall be under no obligation to correct any underpayment of fee rebates resulting from any inaccurate information provided on the application form.
25. The Exchange shall use a FIX key, issued to the Market Makers, alongside an LMEselect FIX tag 58 to track Market Makers' trading volumes. 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 information form exactly. Traded volume transacted through a different FIX key and FIX tag 58 will not be eligible for rebates, nor will they be deemed to contribute to the Market Maker's trading obligations.
26. The full stipend for a market making programme for which a Market Maker acts as Market Maker will only be paid where Market Makers post two-way quotes of the specified spread and minimum lot size for 100% of the time specified in their Market Making Parameters for that programme (as calculated over the course of one calendar month).
27. Where a Market Maker fails to meet the commitments set out in its Market Making Parameters for one of the market making programmes for which it acts as Market Maker, then the stipend payable in respect of that market making programme would be reduced proportionately. For example, Firm A commits in its Market Making Parameters to provide two way quotes of a specified spread and minimum lot size for 60% of the time between 8am - 5pm. However, the Exchange calculates that over the course of one calendar month, Firm A was present, on average, for only 45% of the time during 8am - 5pm. Firm A has therefore been present for only 75% of the committed time period and it will receive only 75% of the stipend for that particular month.
28. Rebates and stipends will be credited to Members two months in arrears. For example, market making activities conducted in January will be calculated in February and credited in March.
29. Under the market making programmes, the Exchange will not calculate rebates in respect of Client Market Makers who trade through multiple Members. The application form will require that each Client selected to act as a Market Maker identifies a single



Member through which it will pursue its Market Making strategy. Whilst the Client will be free to trade on the Exchange generally through any Member, only Market Making trades initiated by the Client through the Member identified on the application form (or as notified by the Client to the Exchange from time to time) will qualify for the relevant rebates and will be included when calculating its presence on the market (for the purposes of paragraph 27 above).

30. Where a single LME Member has multiple Market Maker Clients, the LME Sales team will provide the Member with a breakdown of the relevant rebates and stipends, itemised per FIX tag 58 market maker key.

Requirements for trading on the LME

31. Members have the ability to add multiple FIX tag 58 client codes to the pre-trade risk management system.
32. Subject to any applicable regulatory requirements, the LME order-to-trade ratio calculations will be waived for Market Makers in each of the programmes. The Exchange will reserve the right to reinstate order-to-trade ratio requirements for Market Makers and other market participants at any point of time.
33. Where a Market Maker has applied on behalf of itself and its group entities, the Exchange will aggregate traded volumes executed for that group of companies². The Exchange will only aggregate trades executed by companies previously notified to the Exchange as being within the same group as the Market Maker.
34. When Market Makers trade, they will be allowed a grace time period of sixty seconds to re-enter the required bid or offer, to ensure that they are maintaining their bid/offer spread notwithstanding having entered into a trade with another market participant.
35. If a Market Maker proposes making changes to the details it originally provided in its application form, it is the responsibility of the relevant Member to provide the Exchange with at least two weeks' notice before such changes are made. Changes made with less than two weeks' notice (starting the Business Day after the notice is given) will not be included until a two week period has expired. This may affect the payment of rebates and stipends.

Rulebook

36. The market maker 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.

² "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.



Limits, term and termination

37. The Exchange reserves the right to limit the number of participants in the market maker programmes or include other such limits, restrictions, conditions or clarifications as it may specify by Notice from time to time.
38. The market maker programmes shall be available for an initial term of 12 months from 1 October 2015 with semi-annual reviews of the results. The Exchange shall specify by Notice prior to the expiration of the initial term whether it intends to extend the duration of any of the programmes. Any extension of the duration of the programmes will depend on, amongst other things, regulatory approval. The termination of the market making programmes is subject to the sole discretion of the Exchange and the Exchange retains the right to decline to accept any Member or Client into the programmes.
39. Without prejudice to the above paragraph, the Exchange reserves the right, to restrict, suspend or terminate the market maker programmes at any time by Notice.

No direct relationship between the Exchange and Client

40. The benefits under the market maker programmes 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 or stipend made available by the Exchange to a Member, this is solely a matter between the Member and the relevant Client and no party shall have any claim or right of recourse against the Exchange.

Questions

41. Members or other interested parties with any questions in respect of the Market Maker programmes are invited to contact the LME Sales team by email at sales@lme.com.

Paul MacGregor
Head of Sales

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



Appendix 1 LME Market Making Parameters

Programme	Outright Third Wednesday	Third Wednesday to Third Wednesday	Third Wednesday to/from Three Months
Available contracts	First three tradable outright third Wednesday contracts	1. First third Wednesday to second third Wednesday 2. Second third Wednesday to third third Wednesday 3. Third third Wednesday to fourth third Wednesday	1. First third Wednesday to three months 2. Second third Wednesday to three months 3. Third third Wednesday to/from three months
Market making hours	8:00am - 5:30pm London time	8:00am - 5:30pm London time	8:00am - 5:30pm London time
Percentage of market making hours during which market maker must quote bids and offers in order to qualify from stipend and rebate	80%	80%	80%
Quote type	2 ways, symmetrical volumes	2 ways, symmetrical volumes	2 ways, symmetrical volumes
Minimum lot size on each side	Copper: <ul style="list-style-type: none"> • 2 lots on \$2 bid ask spread • 5 further lots on \$3 bid ask spread Aluminium and zinc: <ul style="list-style-type: none"> • 2 lots on \$1 bid ask spread • 5 further lots on \$2 bid ask spread 	Copper: <ul style="list-style-type: none"> • 25 lots on \$0.50 bid ask spread • 50 further lots on \$1 bid ask spread Aluminium and zinc: <ul style="list-style-type: none"> • 50 lots on \$0.50 bid ask spread • 100 further lots on \$1 bid ask spread 	Copper: <ul style="list-style-type: none"> • 25 lots on \$0.50 bid ask spread • 50 further lots on \$1 bid ask spread Aluminium and zinc: <ul style="list-style-type: none"> • 50 lots on \$0.50 bid ask spread • 100 further lots on \$1 bid ask spread
Metal	Aluminium, copper and zinc	Aluminium, copper and zinc	Aluminium, copper and zinc