

To: All members and other interested parties

Ref: 16/183 : A177

Date: 16 May 2016

Subject: **INTRODUCTION OF ELECTRONIC THIRD WEDNESDAY TRADER PROGRAMME**

Summary

1. This Notice announces the introduction of an electronic trader programme available to all Clients of Members (the “Electronic Third Wednesday Trader Programme”).

Background

2. The Electronic Third Wednesday Trader Programme will apply to trades executed on LMEselect in aluminium, copper, zinc, nickel, lead and tin, in respect of: (i) outright third Wednesday contracts; and (ii) 3 months to and from third Wednesday spreads.
3. For outright third Wednesday contracts and 3 months to and from third Wednesday spreads, under the Electronic Third Wednesday Trader Programme, registered Clients will be entitled to a discount of two-thirds on their total execution and clearing fees, rewarding such Clients for their willingness to participate in the LME’s goal of further building liquidity on monthly dates.
4. The Electronic Third Wednesday Trader Programme will go live on 1 June 2016. Application forms will be available from 16 May 2016 from sales@lme.com and on the LME website.
5. Clients that are already registered for the LME’s liquidity provider programme (as set out in Notice 15/254 : A248 and Notice 16/121 : A117, the “Liquidity Provider Programme”), for outright third Wednesday contracts, will be automatically brought on to the Electronic Third Wednesday Trader Programme from 1 June 2016, given that the Electronic Third Wednesday Trader Programme is at least as financially advantageous (and, in the majority of cases, more financially advantageous) than the Liquidity Provider Programme in respect of outright third Wednesday contracts.



6. In addition, the LME is modifying the percentage rebate for eligible Contracts in respect of the new market participant programme (as set out in Notice 15/254 : A248 and Notice 16/121 : A117, the “New Market Participant Programme”).
7. For the avoidance of doubt, the Liquidity Provider Programme and the New Market Participant Programme set out in Notice 15/254 : A248 and Notice 16/121 : A117 shall continue in force as modified by this Notice.

Defined terms

8. Terms not otherwise defined in this Notice shall have the meaning ascribed to them in the Rules and Regulations of the LME (the “Rulebook”).

Background and overview of programme

9. Following the introduction of the Liquidity Provider Programme and the New Market Participant Programme, a total of 144 liquidity providers and 340 individual new market participants have been enrolled as participants in the programmes. In addition, electronic client trading volume on LMEselect increased by over 14% in 2016 (year to date). The LME believes that the programmes have encouraged increased liquidity on LMEselect.
10. As set out in its Liquidity Roadmap, the LME understands that many market participants would like to see greater electronic liquidity on monthly (third Wednesday) Prompt Dates. The introduction of market making programmes has ensured a tight bid-offer spread in respect of monthly dates, and the challenge is now to encourage Clients of the market to execute in volume on these dates in LMEselect.
11. Recognising that the monthly dates are not currently as liquid as the core 3 month price and responding to Member and Client requests, the LME believes that Clients may be more willing to execute directly on monthly dates in LMEselect if Clients were entitled to a discount for such execution.
12. Currently, when a Client trades an outright third Wednesday Contract via an order-routed trade on LMEselect, the LME fees would be \$2.70 in total (the Client Contract fee of \$1.80 plus an Exchange Contract fee of \$0.90). In contrast, the cost for a Member to trade an Exchange Contract for outright third Wednesday would be \$0.90. Further, currently, when a Client trades a 3 months to/from third Wednesday spread Contract via an order-routed trade on LMEselect, the LME fees would be \$5.40 in total (the Client Contract fee of \$3.60, charged at \$1.80 per leg, plus an Exchange Contract of \$1.80). In



contrast, the cost for a Member to trade an Exchange Contract for 3 months to/from third Wednesday spread would be \$1.80.

13. The LME believes that an appropriate discount for Clients willing to participate in the LME's goal of building monthly liquidity would be to offer two-thirds discounted fees for clients trading third Wednesday outright and 3 months to/from third Wednesday spreads on LMEselect.
14. The determination of eligibility for the Electronic Third Wednesday Trader Programme is at the absolute discretion of the LME and the LME retains the right to refuse any Client application for the Electronic Third Wednesday Trader Programme.

Electronic Third Wednesday Trader Programme

15. The Electronic Third Wednesday Trader Programme will rebate to the relevant, associated Member. Client fees (including client cross, LME and LME Clear fees) of \$1.80 for outright third Wednesday contracts and \$3.60 for 3 months to and from third Wednesday spreads for aluminium, copper, zinc, nickel, lead and tin.
16. The Electronic Third Wednesday Trader Programme for Clients will supersede the Liquidity Provider Programme, **in respect of outright third Wednesdays only**, with effect from 1 June 2016. For the avoidance of doubt, the Liquidity Provider Programme will continue to apply to three month Contracts in accordance with paragraphs 37 to 41 of Notice 16/121 : A117.
17. Clients currently registered for the Liquidity Provider Programme in third Wednesday Contracts will be automatically enrolled in the Electronic Third Wednesday Trader Programme for a period of 12 months from 1 June 2016.
18. When the 3-month prompt date is the same as the third Wednesday of the month, traded volume on this day will NOT be included in the Electronic Third Wednesday Trader Programme.

Changes to New Market Participant Programme in third Wednesday Contracts

19. The New Market Participant Programme shall be modified in respect of outright third Wednesday Contracts with effect from the commencement of trading on 1 June 2016.
20. The rebate volume thresholds set out at paragraph 42 of Notice 16/121 : A117 will no longer apply for third Wednesday Contracts as of the commencement of trading on 1 June 2016 and all eligible third Wednesday Contracts will qualify for the rebates set out in paragraph 21 below.



21. Under the New Market Participant Programme, Members registering eligible third Wednesday Client Contracts, in respect of trades initiated by individual traders acting for Clients that meet the criteria set out in paragraphs 24 and 25 of Notice 16/121 : A117, 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 67% of trading and clearing fees between nine and twelve months¹.
22. Except as set out above, the New Market Participant Programme shall continue as set out in Notice 15/254 : A248 and Notice 16/121 : A117. In order to clarify further the rebate calculation, a 'rebate calculator' is available on www.lme.com.

Application process for the Electronic Third Wednesday Trader Programme

23. Application forms will be available from 16 May 2016 and can be requested from the LME sales team at sales@lme.com. As stated above, Clients currently registered for the Liquidity Provider Programme in third Wednesday Contracts will be automatically enrolled in the Electronic Third Wednesday Trader Programme and do not need to complete a new application form.
24. The Member shall complete the application form and provide all the relevant information required by the LME in respect of the relevant Client entity or individual. It is the responsibility of the Member to ensure that the information provided on the application form is complete and correct. Incorrect information may delay the application process and could affect the timing of payments under the Electronic Third Wednesday Trader Programme. The provision of false or misleading information may lead to disciplinary action against the Member under the Rulebook.
25. Where written approval is granted on or before the 14th 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.
26. Where written approval is granted on or after the 15th day of a month, the trading period shall commence on the first trading day of the following month.

¹ The rebate for between nine and twelve months has been increased from 50% to 67%.



27. The LME shall at its absolute discretion determine whether an application meets the criteria for the Electronic Third Wednesday Trader Programme and whether or not the application should be approved. The LME's decision shall be final and binding.

Rebate process

28. A Member is able to receive rebates in respect of eligible Contracts which are Client Contracts satisfying the criteria under the Electronic Third Wednesday Trader Programme.
29. A Client may only apply for one of the incentive programmes available in one prompt date and no double counting is allowed². It is the responsibility of the Member to ensure that a Client is registered for the programme that is most appropriate for the Client.
30. The LME shall be under no obligation to correct any underpayment of fee rebates resulting from inaccurate applications.
31. The LME 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. The LME will add multiple FIX tag 58 Client codes when calculating group³ order to trade ratio.
32. 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.
33. 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

² The Electronic Third Wednesday Programme will automatically supersede the Liquidity Provider Programme in respect of outright Third Wednesdays only.

³ "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.



were traded. For example, trades registered in January will be calculated in February and credited in March.

Rulebook

34. The Electronic Third Wednesday Trader Programme shall be subject to the terms and conditions set out in the Rulebook, including, without limitation, Regulation 17 of Part 2 of the Rulebook.

Limits, term and termination

35. The Exchange reserves the right to, with or without notice:
- (a) Limit the number of participants in the Electronic Third Wednesday Trader Programme;
 - (b) Extend or vary any of the time limits or other limits or parameters set out in this Notice; or
 - (c) Include other such limits, restrictions or conditions as it may specify by Notice from time to time.
36. Without prejudice to the above paragraph, the Exchange reserves the right with or without notice to restrict, suspend or terminate the Electronic Third Wednesday Trader Programme at any time by Notice.
37. The LME shall endeavour to, but shall not be obliged to, give thirty (30) days' prior notice of its intention to terminate the Electronic Third Wednesday Trader Programme.

No direct relationship between the Exchange and Client

38. The benefits under the Electronic Third Wednesday Trader 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 the Electronic Third Wednesday Trader Programme 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.



Questions

39. Members or other interested parties with any questions in respect of the Electronic Third Wednesday Trader Programme are invited to contact the LME sales team by email at sales@lme.com.

Paul MacGregor
Head of Sales

cc: Board directors
Trading Committee
Ring Dealers' Committee