

To: All Members and other interested parties

Ref: 18/330

Classification: Trading Fees

Date: 21 December 2018

Subject: **RESTRUCTURE OF INCENTIVE PROGRAMMES**

Introduction

1. This notice (the “**Notice**”) confirms the termination of the current Liquidity Provider (“**Current LP**”) and New Market Participant (“**Current NMP**”) programmes (together the “**Current Programmes**”) and introduces revised New Market Participant (“**New NMP**”), Continuing Market Participant (“**CMP**”), and Volume Based Rebate (“**VBR**”) programmes (together the “**New Programmes**”) and sets out the findings of the LME’s tick size review.

Background

2. This Notice sets out the new legal structure governing the New Programmes and the mechanism for existing participants in the Current Programmes to transition on to the New Programme(s).
3. This Notice shall, on the date that the Current Programmes are terminated, supersede and replace Notices 18/200, 17/316, 17/273, 16/359, 16/356, 16/200, 16/197, 16/183, 16/122, 16/121, 15/337, 15/254, 15/303, 15/264, 15/164 and 15/023.
4. The London Metal Exchange (“**LME**”) has also taken this opportunity to summarise the outcome of its tick size review.
5. As highlighted to market participants in Notice 18/200, this redesign of the LME’s incentive programme offering is in line with the principles outlined in the LME Strategic Pathway document, published in Notice 17/302 dated 7 September 2017 (the “**Strategic Pathway**”). The Strategic Pathway set out the LME’s intention of encouraging longer term positive engagement in LME markets from systematic financial traders.



Defined terms

6. Capitalised terms not otherwise defined in this Notice shall have the meaning ascribed to them in the Rules and Regulations of the LME or if not defined in the Rules and Regulations, the meanings ascribed to them in the General Terms (defined below in paragraph 23 of this Notice).

Market engagement

7. During market engagement undertaken by the LME, it became clear that almost all stakeholders were supportive of systematic financial traders' inclusion within the LME ecosystem.
8. Whilst stakeholders acknowledged that systematic financial traders make a significant contribution to liquidity, it was also felt that the LME market should be structured to ensure that such traders contribute positively on a long term basis.
9. To encourage such positive engagement from systematic financial traders, the LME undertook a review of tick sizes on LMEselect to determine whether the behaviour sometimes described as "jumping-in-front" of resting orders in the order book could be discouraged. The LME also undertook to redesign its incentive programmes to ensure that the programmes encouraged positive long term commitment to the market.
10. The LME felt that two aspects in particular of the incentive programmes should be amended. The 100% rebate period offered by the Current NMP programme was encouraging some participants to join the programme but not commit to the market longer term (as these participants only tended to trade when the fees were fully rebated and not thereafter). Secondly, the LME understands that the steep increase in fees after expiry of the Current NMP programme, combined with the high volume thresholds under the Current LP programme, made it difficult for systematic financial traders to continue their trading strategies for the longer term.
11. The design of the New Programmes has therefore focused on addressing these two areas.

Tick size review

12. The LME undertook a tick size review utilising both qualitative and quantitative methods to determine whether trading on LME markets could be made more efficient by changing the tick sizes on LMEselect. The LME was particularly keen to ensure that tick sizes continue to be set at levels that



allow for price improvements in the order book but do not encourage multiple small updates to the price (which may be driven solely by participants responding to other order book activity).

13. The LME also took account of the feedback of many stakeholders across the LME ecosystem in relation to the impact of tick size changes on their trading strategies and business models.
14. The LME has determined that while there are some metals which may benefit from a change to tick sizes, the positive benefits identified were not significant enough to overcome the downsides of amending the tick sizes. The downsides of amending tick sizes include the general market disruption from all participants having to respond to the amended tick sizes, and the risks that the new tick sizes may not have the desired positive impact.
15. The LME will continue to monitor its trading data and any future market participant feedback on the subject of tick sizes.

Overview of the New Programmes

New Market Participants programme

16. The New NMP programme will be a one year programme for proprietary trading participants who have not traded LME Contracts previously. It will offer eligible participants a rebate of a set percentage of trading and clearing fees for electronic trades in outright Contracts.
17. For an initial period of 6 months the rebate will be set at 75% of trading and clearing fees. For the final 6 months of the programme the rebate will be set at 50% of trading and clearing fees.

Continuing Market Participants programme

18. The CMP will be a one year programme open only to proprietary trading participants who have previously been on an LME NMP programme (either the Current NMP or New NMP). Each participant may be on the CMP for a total of one year.
19. The CMP Programme will provide a rebate of 50% of trading and clearing fees for electronic trades in outright Contracts for eligible participants.

Volume Based Rebate programme

20. The VBR Programme will be a one year programme and is open to all proprietary trading participants. Participants may re-apply for the VBR



programme on an annual basis. There is no limit on the length of time a participant can be on the VBR programme.

21. The VBR programme will offer a rebate of 50% of trading and clearing fees for all volume in excess of 5000 lots in any given calendar month. This will apply to electronic trades in all Contracts including both outright and carries (but excluding short-dated carries).

New document structure

22. Alongside the commercial redesign of the New Programmes, the LME has changed the legal structure governing the New Programmes. The primary intention of this structural change is to: (a) make it easier for market participants to understand the LME's New Programmes; and (b) provide the LME with a more efficient method of introducing further incentive programmes and updating the New Programmes when applicable.
23. The general terms and conditions governing the New Programmes can be found in Appendix I of this Notice (the "**General Terms**"). The General Terms will be published on the LME website and may be updated from time-to-time. The intention is for the LME to use these General Terms to govern all future LME incentive programmes.
24. The LME has created specification documents for each of the New Programmes (each a "**Specification**"). These outline the specific terms and conditions applicable to each programme and are attached at Appendix II. The Specifications will be published on the LME website and may be updated from time-to-time.
25. Upon the LME's acceptance of a participant onto a New Programme, the following documents shall together form the agreement between the LME and the relevant Member in respect of the participant's participation in the New Programme:
 - (a) the Member's application form in respect of such participant;
 - (b) the applicable Specification; and
 - (c) the General Terms.

Termination of Current Programmes

26. In accordance with Notice 18/200 the LME is terminating the Current Programmes effective as of close of business 31 January 2019. Participants



currently registered on the Current Programmes will be able to transition to the New Programmes as set out below.

Transitioning of existing Current Programme participants

27. Participants enrolled in the Current NMP programme will be automatically transferred onto the New NMP programme commencing on 1 February 2019 (such time that a participant has remaining on the Current NMP programme, will be transferred onto the New NMP programme). Participants that do not wish to be automatically transferred from the Current NMP programme to the New NMP programme are invited to contact the LME to cancel their participation in the programme on or before 31 January 2019.
28. Participants currently enrolled in the Current LP programme will have their participation terminated as of close of business 31 January 2019. The LME will endeavour to contact all Current LP participants to invite them to apply for the VBR programme.
29. Participants who have previously been enrolled in the Current NMP programme at any point are invited to apply to the CMP programme.

Questions

30. Members or other interested parties with any questions in respect of the New Programmes are invited to contact the LME Sales team by email at sales@lme.com.

Jamie Turner
Head of Sales

cc: Board directors
Trading Committee
Ring Dealers' Committee