

To: All Members

Ref: 19/287

Classification: Fees

Date: 17 September 2019

Subject: **MEMBER INCENTIVE PROGRAMMES**

Summary

1. This notice (the “**MIP Notice**”) announces the launch of a set of new Member incentive programmes for recently introduced contracts on the LME (the “**Programme(s)**”) and provides details relating to the eligibility criteria for, and benefits of, participation in the Programmes.

Background

2. The London Metal Exchange (the “**LME**”) has introduced a number of new contracts since 2015, namely Steel Scrap and Steel Rebar Futures in 2015, LMEprecious Futures in 2017, and most recently a suite of new Cash Settled Futures in March 2019 (see LME Notice 19/020 for further information). The LME continues to work with its Members, the wider market and other stakeholders to enhance its product and service offering, and believes that new contracts and trading opportunities enhance the attractiveness of London as a trading centre.
3. The LME recognises that its Members can sometimes incur significant direct costs and face challenging resource allocation decisions when considering joining a new market and providing trading and clearing access for their Clients. The LME believes that increased liquidity in new contracts is to the benefit of the wider market, enabling more accessible and more efficient risk management solutions. As such, the LME will use a proportion of existing enforcement proceeds to fund new member incentive programmes, focusing on Category 1 and 2 Members of the LME. For the purposes of this MIP Notice, enforcement proceeds means all monies received by the LME from fines imposed on, and settlement money received from, the users of the LME’s facilities (the “**Enforcement Proceeds**”).
4. Through the introduction of three separate programmes, the LME aims to enhance liquidity in: 1) LMEprecious contracts; 2) the Ferrous product suite (LME Steel Scrap, LME Steel Rebar, LME Steel HRC FOB China (Argus) and LME Steel HRC N. America (Platts)); and 3) the remaining new Cash Settled Futures



(LME Alumina (CRU / Fastmarkets MB), LME Aluminium Premium Duty Paid US Midwest (Platts), Aluminium Premium Duty Unpaid European (Fastmarkets MB), LME Cobalt (Fastmarkets MB), LME Molybdenum (Platts)).

Defined terms

5. Terms not otherwise defined in this MIP Notice shall have the meanings ascribed to them in the Rules and Regulations of the LME (the “**LME Rules**”).

Eligibility criteria

6. To be eligible for the Programmes, participants must be either a Category 1 or Category 2 Member of the LME. To be eligible for the LMEprecious Programme, participants must also be a GCM of the LMEprecious service (“**Eligible Participants**”).
7. A Member shall not be entitled to participate in or benefit from the Programmes if such Member, or any Affiliate of the Member, has been issued with, or has agreed to pay the LME (as applicable) fines or settlement amounts exceeding \$500,000 during the term of the Programmes and / or the 10 years preceding the Commencement Date (as defined in paragraph 17 below) (the “**Relevant Period**”).
8. To the extent that a Member, or any Affiliate of the Member, has been issued with, or has agreed to pay the LME (as applicable) fines or settlement amounts exceeding \$250,000 but less than \$500,000, such Member shall only be entitled to benefit from the Programmes to the extent set out in the table below:¹

Aggregate Member fine	Percentage of Fee Credits (as defined in paragraph 19 below) payable in respect of each Programme
≤ \$250k	100 %
> \$250k but ≤ \$300k	75 %
> \$300k but ≤ \$400k	50 %
> \$400k but ≤ \$500k	25 %
> \$500k	0 %

¹ To the extent that an exchange rate calculation is required to determine whether a threshold has been reached, the LME shall use the HM Revenue & Customs monthly exchange rate applicable as at the date the relevant fine was issued (or, in the case of a settlement, on the date that the relevant settlement agreement was executed).



9. For the avoidance of doubt, the term “Affiliate” shall be understood to include any person that was an Affiliate of the relevant Member at any time during the Relevant Period.

Auto-enrolment / opt out

10. Subject to paragraphs 7 and 8, all Eligible Participants will be automatically enrolled onto the Programmes on the Commencement Date (the “**Participating Members**”).
11. Any Participating Members who are in a commercial relationship with the LME in respect of the LMEprecious service can only benefit from the LMEprecious Programme once any pre-paid membership fee balance is fully offset.
12. Participating Members can opt out of the Programmes at any time by providing written notice of such intention to their relationship manager or to the following email address – RM@lme.com.

Rules

13. The Programmes shall be subject to the terms and conditions set out in the LME Rules, including without limitation Regulation 22 of Part 2 and Regulation 14 of Part 3 of the LME Rules.
14. The Programmes are not subject to the LME’s Incentive Programme Terms and Conditions set out on LME.com.

Limits, term and termination

15. The LME reserves the right to limit the number of Participating Members in the Programmes, or include other such limits, restrictions, conditions or clarifications as it may specify by way of Notice from time to time.
16. If the Allocated Funding for a Programme (as defined for the relevant programmes in Appendices A-C) is fully utilised by Participating Members during a calendar month, the LME will pro-rate any Fee Credit (as defined in paragraph 19 below) due to Participating Members for that month by apportioning the remaining Allocated Funding between Participating Members based on their trading volumes in the calendar month. The LME will endeavour to notify the market if it anticipates that the Allocated Funding will be fully utilised by Participating Members during a particular month.



17. The Programmes will commence on 1 November 2019 (the “**Commencement Date**”) and will terminate on the earlier of:

- (a) 31 October 2020; or
- (b) the date upon which the LME determines that the Allocated Funding has been fully utilised by Participating Members.

18. The LME reserves the right to alter, restrict, suspend or terminate the Programmes at any time by way of Notice.

Fee credit structure

19. Participating Members shall, in accordance with the calculation set out in Appendices A-C, receive a Fee Credit which can be applied against all LME fees irrespective of the product traded (but excluding Eligible Contracts as defined for the relevant Programme) (the “**Fee Credit**”). For the avoidance of doubt, the Fee Credit cannot be applied against any clearing fees or any other LME Clear fees or tariffs.

20. The LME shall calculate the Fee Credit due to each Participating Member at the end of each calendar month and such Fee Credits will be credited to Participating Member’s next invoice, which is usually issued on or around the third business day of the following month. To the extent that any Fee Credits are not fully utilised by the Participating Member within the month that such Fee Credits are granted, the LME will pay to the Member an amount equal to the remaining unutilised Fee Credits. Such payment shall occur on or around the third business day of the month following the month in which the Fee Credits were granted.

21. If the LME credits to the Participating Member a Fee Credit in excess of the amount due to the Member under the terms of the Programmes, the LME reserves the right to cancel any excess Fee Credits provided to the Participating Member and to remove such Fee Credits from the Member’s account.



Questions

22. Members or other interested parties with any questions in respect of the Programme are invited to contact the LME Market Development department by email at RM@lme.com

Robin Martin

Head of Market Development

cc: Board directors



Appendix A

Ferrous Member Incentive Programme

Eligible contracts

1. All Ferrous Futures (i.e. Steel Scrap, Steel Rebar, Steel HRC FOB China and Steel HRC N. America Contracts) executed on either LMEselect or LMEsmart shall be considered eligible for the purposes of this Programme. For the avoidance of doubt this includes all Prompt Dates (“**Ferrous Eligible Contracts**”).

Fee credit calculation

2. Participating Members shall, in accordance with the calculation set out in paragraph 3 below, receive a Fee Credit which can be applied against all LME fees irrespective of the product traded (but excluding Ferrous Eligible Contracts). For the avoidance of doubt, the Fee Credit cannot be applied against any clearing fees or any other LME Clear fees or tariffs.
3. The amount of Fee Credit provided to each Participating Member under this Programme shall be calculated on the following basis:

For each USD \$1 spent on gross trading and clearing fees (in both house and Client contracts) in Ferrous Eligible Contracts by a Participating Member, such Participating Member shall receive a USD \$3 Fee Credit. Fee Credits can be applied against all LME fees but cannot be applied against any clearing fees or any other LME Clear fees. For the purposes of this calculation, ‘gross’ trading and clearing fees refers to the total fees paid by the Participating Member excluding any rebate or reduction due or applied to such fees as a result of any other LME or LME Clear incentive programme or liquidity provider arrangement.

4. At the Commencement Date, the LME will allocate \$600,000 from the pool of Enforcement Proceeds to fund the Programme (the “**Ferrous Allocated Funding**”). The maximum aggregate Fee Credit that a Participating Member can accrue under the Programme shall be capped at \$100,000. The maximum Fee Credit a Participating Member can accrue in any calendar month shall be capped at \$20,000.



Appendix B

LMEprecious Member Incentive Programme

Eligible contracts

1. All LMEprecious Contracts (i.e. LME Gold Futures and LME Silver Futures) executed on either LMEselect or LMEsmart shall be considered eligible for the purposes of this Programme. For the avoidance of doubt this includes all Prompt Dates in any LMEprecious contract (“**LMEprecious Eligible Contracts**”).

Fee credit calculation

2. Participating Members shall, in accordance with the calculation set out in paragraph 3 below, receive a Fee Credit which can be applied against all LME fees irrespective of the product traded (but excluding LMEprecious Eligible Contracts). For the avoidance of doubt, the Fee Credit cannot be applied against any clearing fees or any other LME Clear fees or tariffs.
3. The amount of Fee Credit provided to each Participating Member under this Programme shall be calculated on the following basis:

For each USD \$1 spent on gross trading and clearing fees (in both house and Client contracts) in LMEprecious Eligible Contracts by a Participating Member, such Participating Member shall receive a USD \$3 Fee Credit. Fee Credits can be applied against all LME fees but cannot be applied against any clearing fees or any other LME Clear fees. For the purposes of this calculation, ‘gross’ trading and clearing fees refers to the total fees paid by the Participating Member excluding any rebate or reduction due or applied to such fees as a result of any other LME or LME Clear incentive programme or liquidity provider arrangement.

4. At the Commencement Date, the LME will allocate \$1,200,000 from the pool of Enforcement Proceeds to fund the Programme (the “**LMEprecious Allocated Funding**”). The maximum aggregate Fee Credit that a Participating Member can accrue under the Programme shall be capped at \$500,000. The maximum Fee Credit a Participating Member can accrue in any calendar month shall be capped at \$100,000.



Appendix C

New Cash Settled Futures Member Incentive Programme

Eligible contracts

1. All new Cash Settled Futures excluding Ferrous Futures (i.e. Alumina, Aluminium Premium Duty paid US Midwest, Aluminium Premium Duty Unpaid European, Cobalt, Molybdenum Contracts) executed on either LMEselect or LMEsmart shall be considered eligible for the purposes of this Programme. For the avoidance of doubt this includes all Prompt Dates (“**New Cash Settled Eligible Contracts**”).

Fee credit calculation

2. Participating Members shall, in accordance with the calculation set out in paragraph 3 below, receive a Fee Credit which can be applied against all LME fees irrespective of the product traded (but excluding New Cash Settled Eligible Contracts). For the avoidance of doubt, the Fee Credit cannot be applied against any clearing fees or any other LME Clear fees or tariffs.
3. The amount of Fee Credit provided to each Participating Member under this Programme shall be calculated on the following basis:

For each USD \$1 spent on gross trading and clearing fees (in both house and Client contracts) in New Cash Settled Eligible Contracts by a Participating Member, such Participating Member shall receive a USD \$6 Fee Credit. Fee Credits can be applied against all LME fees but cannot be applied against any clearing fees or any other LME Clear fees. For the purposes of this calculation, ‘gross’ trading and clearing fees refers to the total fees paid by the Participating Member excluding any rebate or reduction due or applied to such fees as a result of any other LME or LME Clear incentive programme or liquidity provider arrangement.

4. At the Commencement Date, the LME will allocate \$200,000 from the pool of Enforcement Proceeds to fund the Programme (the “**New Cash Settled Futures Allocated Funding**”). The maximum aggregate Fee Credit that a Participating Member can accrue under the Programme shall be capped at \$50,000. The maximum Fee Credit a Participating Member can accrue in any calendar month shall be capped at \$10,000.