

To: All Members and other interested parties

Ref: 17/294

Classification: Trading Rulebook

Date: 31 August 2017

Subject: **FERROUS PRICING PROCEDURES**

## Summary

1. This Notice sets out the procedures and methodology that will be used by the LME to determine the Ferrous Daily Settlement Price, the Ferrous Final Settlement Price and the indices that the LME will be using for the settlement of Ferrous Futures.

## Background

2. As communicated to Members in Notice 17/151 on 28 April 2017 the index calculation methodology for the “TSI HMS 1&2 80:20 CFR Iskenderun port” will be changing in accordance with the announcement made by S&P Global Platts on 28 April 2017. The changes to the calculation methodology will take effect from 1 September 2017.
3. Ferrous Futures will be tradable on LMEselect between 01.00 hours and 19.00 hours on each Business Day, and on the telephone market 24 hours a day during each Business Day. The major currency will be US Dollars. The Ferrous Last Trading Time for Steel Scrap and Steel Rebar will be 16.30 hours on the Last Trading Day.
4. Capitalised terms not otherwise defined in this Notice shall have the meaning ascribed to them in the LME Rulebook.

## Ferrous Pricing Procedures

5. In accordance with Regulation 1.9 of Part 6C of the LME Rulebook, the LME specifies below the procedures that it will apply to determine: (a) the Ferrous Daily Settlement Price; and (b) the Ferrous Final Settlement Price.



## Ferrous Daily Settlement Price

### *Methodology and timing*

6. The Ferrous Daily Settlement Price will be calculated using a volume weighted average price (“VWAP”) from transactions on LMEselect. The prices will be discovered and published by the Quotations Committee using the procedures set out in this Notice. The Quotations Committee will use third party agency pricing in the determination process. These are recognised industry index values determined by TSI/Platts and will provide a meaningful point of reference. The monthly average TSI/Platts index price will be used for cash settlement of the expiring contract month on the last Business Day of the front month.
7. The Ferrous Daily Settlement Price, used for margining and daily settlement purposes, will be derived from trading volumes on LMEselect between 16.25 hours and 16.30 hours with prices published by the LME at approximately 16.45 hours.
8. The Ferrous Daily Settlement Price will be established on LMEselect using a calculated VWAP over a 5 minute pricing period, which will be subject to review by the Quotations Committee. The following table provides an example of how this calculation will work:

<b>Lots</b>	<b>Price</b>	<b>Tonnes per Lot</b>	<b>Contract Value</b>
10	\$301.00	10	\$30,100.00
8	\$302.00	10	\$24,160.00
7	\$305.00	10	\$21,350.00
1	\$303.00	10	\$3,030.00
16	\$304.00	10	\$48,640.00
18	\$306.00	10	\$55,080.00
60			\$182,360.00
\$182,360.00 divided by 10 divided by 60	<b>\$303.93</b>		

9. In the above example, the Ferrous Daily Settlement Price will be USD 303.93. The normal rounding convention will apply if the price is less than USD 0.01; i.e. in the above example USD 303.933 will be rounded down to USD 303.93. Ferrous Daily Settlement Prices for all tradable months out to Contract expiry will be published to market participants using an LMEselect market message and through LME licensed data vendors. The minimum volume threshold requirement for the calculation of the Ferrous Daily Settlement Price will be 25 Lots. If the minimum volume threshold requirement for the calculation of the



Ferrous Daily Settlement Price is not reached, then expert judgement will be exercised by the Quotations Committee, taking into account the following:

- The last traded price within the bid/offer on the close of the pricing period;
- If the last traded price is outside of the bid/offer on the close of the pricing period, then the closest price to the last trade that falls within the bid/offer will be used;
- If the Contract is untraded, then the mid-point of the bid/offer on the close of the pricing period will be used;
- If the Contract is untraded and there is no bid and/or offer available on the close, then the Quotations Committee may, in its absolute discretion, reference the last traded price, before the beginning of the pricing period, however, the Quotations Committee is not be obliged to discover the price at this level;
- If the Contract is untraded and there is no bid and/or offer available and there have been no trades prior to the pricing period, then the Quotations Committee, may at its absolute discretion, discover the price as close as possible to the previous day's Ferrous Daily Settlement Price, taking into account bids and/or offers at the close of the pricing period;
- In the event that there is no pricing information in LMEselect, particularly for month 1, then the Quotations Committee shall, using expert judgement, reference all available pricing information as a basis for the price curve;
- It is reasonable to assume that the main volumes traded will be in the nearby months and therefore establishment of the forward months out to month 15 shall take into account the same methodologies as above, but with further reference to any available spread trading information in the event of a lack of liquidity for outright trades. The most active months should form the basis for the forward price curve in this instance and prices should be supported and referenced against price information as provided by any quoted settlement price ("QSP") information from participants. QSP shall constitute an average of quoted prices provided by relevant market participants.

10. It should be noted that whilst the above methodologies will generally be used, such market information as detailed will be referenced by the Quotations Committee as the basis for the discovery of the Steel Scrap and Steel Rebar prices. In its absolute discretion and using expert judgement, the Quotations Committee may choose to discount any of the market information available if deemed necessary for the publication of a credible price curve. The TSI/Platts



daily index price will also be referenced as a guide when determining Ferrous Daily Settlement Prices in this manner, as well as any relevant QSP information.

### *Ferrous Index*

11. On a daily basis, TSI/Platts will provide a spot agency index price for Steel Scrap and Steel Rebar at 16.30 hours. These prices will be received by the Quotations Committee via an SFTP feed.
12. The Ferrous Index provided by TSI/Platts will be used by the Quotations Committee each day to help form the front month Ferrous Daily Settlement Price in the following way:
  - When a VWAP price is generated on LMEselect it will be referenced against the Ferrous Index;
  - When a bid/offer exists in the market on LMEselect, these will be referenced against the Ferrous Index; and
  - The monthly Ferrous Index will be used for cash settlement of the expiring contract month on the last Business Day.

### *Participant Contract (QSP)*

13. Where the methodologies as set out in paragraphs 6 to 10 of this Notice still leave prices to be discovered by the Quotations Committee, the Quotations Committee may in its absolute discretion choose to reference the QSP if it deems it appropriate. It is likely that this process will only take place for Contract months that have not met the minimum VWAP volume thresholds and those that fall outside of where markets have been quoted in LMEselect. In using the QSP process for determining the Ferrous Daily Settlement Price on any Business Day, the Quotations Committee will look to average pricing information across all participants providing prices with outliers discounted using expert judgement.
14. QSPs may also be used to further validate the Ferrous Index as provided by TSI/Platts. Market Participants will be encouraged but not obliged to provide price information as part of the QSP process.

### *Expert judgement*



15. Where the above procedures in paragraphs 6 to 10 of this Notice still requires prices to be discovered, the Quotations Committee in its absolute discretion will apply expert judgement to discover prices with regard to any other information available. In the event that there is an outage on LMEselect and prices cannot be traded and discovered in the usual manner, the methodologies detailed in paragraphs 9 and 10 of this Notice will be used to determine and publish the Ferrous Prices.

#### *Publication*

16. When all Contract months' prices have been discovered they will be published at the approximate times listed below:

<b>Contract</b>	<b>Provisional LMEselect message</b>	<b>Confirmed LMEselect message</b>	<b>Provisional prices to vendors</b>	<b>Confirmed prices to vendors</b>
Steel Scrap	16.45	16.50	16.45	17.50
Steel Rebar	16.45	16.50	16.45	17.50

- All prices published by the Quotations Committee will be available for Members to retrieve on the SFTP server as a PDF document.
- This document will be for Members to formally review as part of the objection process.
- The objection process will commence once the prices are available on the SFTP server and will last for 5 minutes.
- Any objections should be sent to the Quotations Committee at [closingprices@lme.com](mailto:closingprices@lme.com).
- The Quotations Committee will review objections and notify resolutions to the market as soon as is practically possible thereafter:
  - a. changes will result in a new PDF available on the SFTP server;
  - b. no changes will result in prices being confirmed in line with the above timelines where possible; and
  - c. all changes, where appropriate, will be communicated via an LMEselect market message.



- Prices will also be made available to licensed data vendors in line with the times specified in the table above.

### **Ferrous Final Settlement Price**

17. As set out in Regulation 1.10 of Part 6C of the LME Rulebook, the LME shall specify, by way of Notice issued to Members, the relevant index or Indices that shall constitute Ferrous Index or Ferrous Futures that are LME Steel Scrap Contracts or LME Steel Rebar Contracts. Accordingly, Members and other interested parties are advised that the final settlement, following termination of the trading for a Contract month, will be based on the Monthly Average Settlement Price of:
  - a. the “Platts TSI HMS 1&2 (80:20) CFR Turkey” Index for the LME Steel Scrap contract; and
  - b. the “Platts Rebar, Turkish exports, FOB Turkey port” Index for the LME Steel Rebar contract.
18. The Ferrous Index will be used by the Quotations Committee to determine the Ferrous Final Settlement Price in accordance with Regulation 1.9 of Part 6C of the LME Rulebook.
19. The Ferrous Final Settlement Price will be established on the last Business Day of each month upon receipt of the Ferrous Index for each Contract from TSI/Platts. The LME will receive the Ferrous Index at 16.30 hours for Steel Scrap and Steel Rebar, with the confirmed Ferrous Final Settlement Price for each Contract published at approximately 16.45 hours. The timing of the publication of the Ferrous Final Settlement Price for both Steel Scrap and Steel Rebar are subject to the successful receipt of these prices from TSI/Platts.
20. In the event of a failure of the necessary SFTP feeds from TSI/Platts, the LME’s business continuity procedures stipulate alternative methods for receiving the daily and monthly Ferrous Index prices from TSI/Platts, either by email or by telephone.

### **General**

21. Members or other interested parties with queries in respect of this Notice should contact the LME by email to: [tradingoperations@lme.com](mailto:tradingoperations@lme.com).



**Peter Childs**  
**Head of Trading Operations**

cc: Board directors  
User Committee  
Trading Committee  
Steel Committee