

To: All Members and other interested parties

Ref: 17/273

Classification: Trading

Date: 09 August 2017

Subject: **CONTINUATION OF LIQUIDITY PROVIDER AND NEW MARKET PARTICIPANT PROGRAMMES**

Summary

1. This Notice confirms the continuation of the Liquidity Provider (“LP”) and New Market Participant (“NMP”) programmes (“the Programmes”) for a further year starting from 10 August 2017 until 9 August 2018 for the LP programme and 1 September 2017 until 30 August 2018 for the NMP programme.

Defined Terms

2. Capitalised terms not otherwise defined in this notice (“Notice”) have the meaning ascribed to them in the LME Rules.

Background

3. The Exchange is extending the Programmes on the same terms that were set out in Notice 16/121 : A117 issued on 24 March 2016 (“LP & NMP Notice”) unless otherwise specified in this Notice.
4. As Members and their Clients will be aware, the LME is reviewing feedback following the issuance of a market wide Discussion Paper, following the deadline for feedback on June 30 2017. The Discussion Paper sought feedback on the ‘LME ecosystem’, trading and booking structure, clearing structure, delivery and physical market structure, membership, volumes, fees and new products.
5. The LME will take into account all relevant feedback from the Discussion Paper and, where applicable and appropriate, either publish changes to the Programmes or cancel the Programmes in order to implement the LME’s



future strategy. However, if the Programmes are not renewed now, then the LME would be required to seek regulatory non-objection from the FCA following the outcome of the Discussion Paper. In the event that the LME subsequently determines to maintain the Programmes as part of its strategic direction, this could impact timelines. Accordingly, it is considered appropriate to renew the programmes now and maintain optionality for the market.

Overview of the Programmes

Eligibility

6. The determination of eligibility for the Programmes is subject to the absolute discretion of the LME and the LME retains the right to decline to accept any Member or Client into the Programmes where it does not believe it satisfies the relevant criteria.
7. For the purposes of the Programmes, the LME defines a 'Proprietary Trading Firm' as a legal entity, the principal commercial business of which is to undertake trading activity on its own account in specified investments (where specified investments have the definition given in the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001) and where it satisfies the following conditions:
 - (i) all trading is done using capital beneficially owned by the relevant entity;
 - (ii) all trading must be done electronically by owners, employees, members or contractors of the relevant entity on behalf of the relevant entity;
 - (iii) the relevant entity may not combine trading its own capital with trading of capital held on behalf of third parties;
 - (iv) all profits and losses are booked to accounts beneficially owned by the relevant entity; and
 - (v) net profits and losses received as a result of the trading activity will appear on the balance sheet and form part of the accounting of the relevant entity whether or not such profits or losses are retained by the entity.
8. Supplementary to the above definition, where a Client is a hedge fund / commodity trading advisor with a proprietary trading desk, it may generally



be deemed to fall within the definition of a Proprietary Trading Firm in respect of the activities of that desk.

9. For the avoidance of doubt, firms undertaking in-house hedging business which is ancillary to their main commercial business will not meet the definition of a Proprietary Trading Firm.
10. Members will be eligible to register for the Programmes for the New Metals (as defined in paragraph 2 of the LP & NMP Notice) in respect of electronically traded 3-Month and 3rd Wednesday outright Client Contracts (“Eligible Client Contracts”), which are entered into the Matching System as a result of an order placed through the LMEselect API order routing system by Clients which are Proprietary Trading Firms.
11. The individual trader must also satisfy the following conditions:
 - (i) The individual trader has not previously traded Eligible Client Contracts for which they wish to register (this includes trading at previous firms); and
 - (ii) His/her principal activities must include trading futures on a discretionary basis for the proprietary account of his/her employer or his/her own proprietary account.

Rebates

12. A Member is able to receive rebates in respect of:
 - (i) Eligible Client Contracts which are Client Contracts satisfying the criteria under the NMP programme; and
 - (ii) Eligible Client Contracts which are Client Contracts satisfying the criteria under the LP programme.
13. The Member will benefit from rebated trading and clearing fees attributable to the relevant Eligible Client Contracts for which they are registered.

LP programme in 3-Month Contracts

14. For three month Contracts in relation to the LP programme, the volume thresholds set out in the LP & NMP Notice will continue to apply.
15. Under the LP programme, Members will receive the following rebates in respect of Client Contracts for outright 3-month Metal Futures Contracts, that:



- (i) arise as a result of a trade placed on LMEselect;
- (ii) are for aggregate business in aluminium, copper, zinc, nickel, lead and tin; and
- (iii) are initiated by Clients that meet the criteria set out in paragraphs 7 to 11 above, based on the following volume thresholds:

3-month Contracts lots traded per month	Fee per side per lot, USD (including Clearing) ¹	Total rebate in respect of per lot trading fee (USD)	Total rebate in respect of per lot clearing fee (USD)
0-10,000	2.70 (current client headline)	0.00	0.00
10,001-25,000	2.50	0.14	0.06
25,001-115,000	2.30	0.29	0.11
115,001-210,000	2.10	0.43	0.17
210,001-300,000	1.90	0.58	0.22
Over 300,001	0.90	1.30	0.50

16. The LP programme rebate operates on an incremental basis i.e. the total rebate for each participant is calculated from the volume traded in each threshold level.

NMP programme

17. Under the NMP programme, Members registering Client Contracts for outright 3-month and outright third Wednesday Metal Futures Contracts only, in respect of trades initiated by individual traders acting for Clients (that meet the criteria set out in paragraphs 7 to 11 above) will receive the following rebates in respect of Eligible Client Contracts:

¹ Note amounts shown in this column include the Client Contract fee of USD 1.80 (charged at USD 0.90 per leg, prior to the application of any rebate) plus an Exchange Contract (USD 0.90). The rebate is applied in respect of the Client Contracts only. The amount payable for the Exchange Contract (USD 0.90) is included in each row in this column for the sake of completeness.



- (i) A rebate of 100% of trading and clearing fees for the first six months following registration;
 - (ii) A rebate of 75% of trading and clearing fees between six months and nine months following registration; and
 - (iii) A rebate of 50% of trading and clearing fees between nine and twelve months following registration.
18. The commencement of the relevant period is dependent on the date on which the Client is approved as eligible for the Programme or, where the Client has previously been approved as eligible for certain metal(s) in respect of a Programme, the date on which the Client is approved as eligible in respect of another metal(s).
19. The rebates specified above will be available in respect of Client Contracts related to outright LMEselect trades only; no rebate will be available for Ring/kerb/basis trades, give-up trades or carry trades.
20. Members may only benefit once from the NMP programme in respect of Client Contracts initiated by any individual trader, in the applicable metal, at either the 3-month or 3rd Wednesday part of the trading curve in a particular metal.² After the expiration of the 12-month period, the Member will not be able to benefit from any further Client Contracts in a particular metal for the relevant part of the trading curve initiated by that individual trader (even if the individual trader moves firms).
21. 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.
22. 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.

Application Process

23. Application forms are available from the LME sales team at sales@lme.com.

² So, for example, a Member who is registered as a LP in respect of Eligible Client Contracts in aluminium, copper, zinc, lead, nickel and tin, but whose relevant eligible Client has never traded Eligible Client Contracts in respect of 3rd Wednesday, could register as a New Market Participant in 3rd Wednesday in all six metals.



24. The Member shall complete the application form and provide all relevant information which the Exchange shall require in respect of the relevant Client entity or individual. 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.
25. The Exchange's decision as to whether an application meets the criteria for the relevant Programme and should be approved shall be final and binding.

Rebate Process

26. The Exchange shall be under no obligation to correct any underpayment of fee rebates resulting from inaccurate applications.
27. The Exchange 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. New Market Participants will need to use a different FIX tag 58 Client code than that of existing traders' FIX tag 58 Client code used for the LP programme. The LME will add multiple FIX tag 58 Client codes when calculating group³ order to trade ratio.
28. The Exchange will group traded volumes from different Client legal entities into the group⁴ holding company for both the Programmes.
29. 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.

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.

⁴ "group" is defined as above.



30. 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 were traded. For example, trades registered in September will be calculated for rebates in October and credited in November.
31. Under both the LP programme and the NMP programme, the LME will now allow accumulating volumes when a client of a member trades through multiple Members. In these instances, once a Client has been approved for the Programmes, LME will calculate rebates in respect of Client Contracts initiated by Clients through the relevant Members and rebate the fees pro-rata to the volumes generated per Member.

Rulebook

32. The 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.

Limits, term and termination

33. The Exchange reserves the right to, with or without notice, (a) limit the number of participants in each of the Programmes, (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. The LME may also review the Programmes and make any changes to either: (i) the Programmes; or (ii) the requirements by which a Member or Client is accepted onto or participates in the Programmes to ensure that the LME is compliant with MiFID II.
34. When the 3-month prompt date is the same as the third Wednesday of the month, traded volume on this day will be included in the 3-month threshold.
35. The initial term of the Programmes is 12 months and the Programmes shall expire on the dates set out in paragraph 1 of this Notice. The Exchange shall specify by notice prior to the expiration of the extended term whether it intends to further extend the duration of either or both Programmes. Any extension of the duration of either or both Programmes will depend on, amongst other things, regulatory non-objection.
36. Without prejudice to the above paragraph, the Exchange reserves the right with or without notice to restrict, suspend or terminate the Programmes at any time by notice.



No direct relationship between the Exchange and client

37. The benefits under the Programmes are made available by the Exchange to the relevant Member. It is the responsibility of the Member and relevant Clients/individual traders to determine between them the basis and extent to which any benefits under the 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 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

38. Members or other interested parties with any questions in respect of the Programmes 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