

To: All Members

Ref: 20/116

Classification: Trading

Date: 24/04/2020

Subject: **LME Metal Options Interpolation Process and Submission of Closing Volatilities Clarification**

Summary

1. The London Metal Exchange (“**LME**”) is issuing this Notice (the “**Notice**”) to inform market participants of the planned changes to the interpolation methodology of the current data for Metal Options. This Notice also clarifies the meaning of the term “active” for the purposes of Regulation 5.7.4, Part 3 of the LME’s Rules and Regulations (the “**Rulebook**”).
2. With effect from 11/11/2019, the LME implemented a change to the procedures used for the determination of Closing Prices for Traded Options by incorporating cubic spline interpolation as more fully outlined in paragraph 30 of Notice 20/115 (the “**Consolidated Notice**”).
3. Terms not otherwise defined in this Notice shall have the meaning ascribed to them in the Rulebook.

Metal Options

4. The LME has implemented a change to the procedures used for the determination of Closing Prices for Traded Options by amending the interpolation methodology from a linear approach to a combination of cubic spline and linear interpolation.
5. Currently the approach to interpolation incorporates all contribution points from submitting Members and Clients.
6. The LME’s approach to interpolation of data will still incorporate the five designated delta points (as set out in paragraph 20 of the Consolidated Notice) for the front six months, the submission of which is a mandatory obligation for qualifying Members. Qualifying Members are reminded that a failure to comply with this obligation may result in that Member being subject to LME disciplinary procedures.



7. Following the front six months, subsequent June and December months out to the last tradable expiry month for each of the Copper, Primary Aluminium, Zinc, Nickel and Lead Metal Options will be included to complete the interpolation for the full relevant pricing curve.
8. For each of the periods between the data points in paragraph 6 and paragraph 7, the LME will use its own interpolation methodology to ensure that a more smooth and consistent surface is produced on a daily basis.
9. The Consolidated Notice has been updated to reflect these changes.

Regulation 5.7.4, Part 3 of the Rulebook

10. The LME clarifies that for the purposes of Regulation 5.7.4, Part 3 of the Rulebook, and outlined in paragraph 30(a) of the Consolidated Notice, a Member being “active in a particular Metal Option, Traded Average Price Option, Index Option and/or LMEprecious Option” includes circumstances when a Member clears trades for a Client in a Metal Option, Traded Average Price Option, Index Option and/or LMEprecious Option.

James Macdonald
Head of Trading Operations

cc: Board directors
Traded Options Committee