

To: All Members

Ref: 16/007 : A007

Date: 07 January 2016

Subject: **INTRODUCTION OF A REVISED MEMBER AUDIT PROGRAMME (MAP)**

Summary

1. This Notice sets out details of the revised Member Audit Programme (MAP) from January 2016 onwards. The revised MAP will be a risk-based, targeted audit programme, which will focus on a specific LME Rule or group of associated LME Rules.

Defined Terms

2. Capitalised terms not otherwise defined herein shall have the meaning ascribed to them in the LME Rulebook.

Background

3. As Members will be aware, the LME has in the past ensured that Members complied with the LME Rulebook and associated Administrative Procedures using a rolling “full-scope” Member visit programme. Following changes to the LME’s membership eligibility criteria set out in LME Notice 15/241 R003 dated 31 July 2015, which have meant that it is now possible for LME Members to be located outside the UK/EEA, and additional requirements which will come into force as a result of the Markets in Financial Instruments Directive 2 (MiFID 2), the LME conducted an internal review of its MAP.
4. This review concluded that a risk-based MAP would be a more effective way of ensuring compliance with the LME Rulebook and associated Administrative Procedures, as well as a more efficient use of both LME and Member resources.

Member Audit Programme (MAP)

5. The LME is therefore implementing a risk-based MAP, which will be targeted to ensure compliance with relevant LME Rules specific to a Member’s LME business activities. The overall objective of the MAP remains the same as that of the previous “full scope” Member visits, namely ensuring Member compliance with LME Rulebook and associated Administrative Procedures. It is envisaged that the MAP will be delivered as a series of desk-based reviews, although LME representatives may undertake site visits to undertake specific compliance tests as necessary.

Identification of Members subject to each Review

6. The LME will take a risk-based approach in order to identify which Members will be subject to each review. This approach will take into consideration not only the overall



level of activity that a Member undertakes on the market, but also the type of business undertaken so as to ensure they are subject to all relevant LME Rules. An obvious example of this would be that Category 1 Members will be subject to review for those LME Rules that specifically cover trading in the Ring, whereas all other Categories of Members would not be subject to such review.

7. Whilst it is inevitable that those Members who are more active on the market will be subject to a greater number of reviews than Members who are less active, the LME will ensure that the number of reviews that any individual Member is subject to is reasonable and proportionate.

Scope of Review

8. With regard to scope, a review of the LME Rulebook and associated Administrative Procedures has been undertaken, and the ongoing obligations of Members have been grouped into the following categories:
 - (a) Client Documentation & Process Review;
 - (b) Matching Performance;
 - (c) Trade Audit;
 - (d) Give-up Review;
 - (e) System Capacity & Resilience;
 - (f) Position Management Review;
 - (g) Short Price Code Accuracy & Completion.
9. For each category, a number of sub-groups have been identified which relate to either a specific LME Rule or group of LME Rules governing a particular business process – e.g. Rules pertaining to the Lending Guidance within the Position Management Review. For each sub-group, the LME will seek assurance that Members are complying with the relevant LME Rule(s). This will be achieved either by requesting the Member provide such information as the Member considers relevant to demonstrate compliance with the LME Rule(s); or by the LME providing the Member with a sample of (order/trade/position) data, and requesting confirmation that the relevant LME Rule(s) have been complied with as appropriate.

Results of Review

10. The results of all reviews will be shared with the Member concerned. Whilst it is not possible to be specific as to what the results would be, broadly speaking it is expected that they would fall into the following categories:
 - (a) Acceptable – the Member has demonstrated compliance with the relevant LME Rule(s); or



- (b) Remedial Action Required – the Member has not been able to demonstrate compliance with the relevant LME Rule(s), but the LME considers that (a) the non-compliance is of a minor or non-material nature and has not had a material impact on the market or Clients, and (b) compliance can be achieved through the implementation of (agreed) remedial actions. The LME will discuss and agree with the Member a proposed remedial action plan in order to address the findings together with a timetable for their completion. In such cases, it is likely that the LME will undertake a follow-up review after the remedial actions have been successfully implemented; or
- (c) Failure to Comply – the Member has not been able to demonstrate compliance with the relevant LME Rule(s), and the LME considers that the scale or impact of non-compliance is such that an investigation should be initiated in contemplation of disciplinary action. An investigation would be conducted in accordance with Regulation 10 of Part 2 of the LME Rulebook, and any resulting disciplinary action would be conducted in accordance with Regulation 11 of Part 2 of the LME Rulebook.

11. The results of the review will be treated in confidence by the LME in accordance with the confidentiality provisions set out at Regulation 16 of Part 2 of the LME Rulebook (subject to the limitations set out therein).

Next Steps

- 12. The MAP will commence in January 2016. The LME will seek Member feedback on the scope and delivery of the reviews during the course of the year. Any changes to the content or conduct of the MAP would be notified to the market.
- 13. It is intended that the revised MAP will be less burdensome for Members, whilst at the same time ensuring that high levels of compliance with the LME Rulebook and associated Administrative Procedures are maintained. Where deficiencies are identified, the aim is to address them through remedial action wherever possible, and in doing so promote best practice across the membership.

A handwritten signature in black ink, appearing to read 'S. Ullah', is positioned above the name and title of the signatory.

Samuel Ullah
Head of Monitoring Surveillance

cc: Board directors