

## Appendix 1 – Summary of Feedback and Responses

Respondent	Comment	Response	Change to Proposal
Respondent 1	The proposal in paragraph 9 places a heavy and unnecessary burden on LME Members. The Client may hold additional or offsetting positions on other LME Members. It would require the Member to investigate each position without the full information, requiring substantial resources on a technical and personnel level. LME should consider adopting approach taken by certain other exchanges in that it should be the LME that monitors for positions that are in excess of the Accountability Levels, and if above, then the LME should contact the Member if they require further information. Only the LME has full visibility over all positions of Clients across different exchanges.	The LME has given consideration to the suggestion that it adopts the approach taken by other exchanges which have implemented Accountability Levels, and will amend the Proposal accordingly.	Yes – paragraphs 1, 3, 5 and 6 have been amended (and paragraph 9 deleted) to reflect the fact that where a position is in excess of the relevant Accountability Levels, the LME <u>may</u> request further information from the Member or the Member’s Client – i.e. there will be no automatic reporting obligation on the part of the Member.
	The LME should be able to contact the Client directly, particularly where the position is held across a number of Members, as it is only the LME that has sight of the overall position. However, this might not always be possible.	This is specifically catered for in the Proposal – where appropriate, Members should encourage their Clients to provide all relevant information directly to the LME (see paragraph 9). Members are encouraged to put in place procedures that would allow their Clients to provide information directly to the LME.	Yes – paragraph 9 has been amended to clarify that, where appropriate, Members should encourage their Clients to provide all relevant information directly to the LME, and in such cases the Member will have been deemed to have met the necessary requirement.
	Where the LME approaches a Member to request they contact a Client regarding a breach of the Accountability Levels, assuming the Client has positions with other Members, in doing so the LME may divulge Client information to that Member which	The LME confirms that any request for further information which the LME may make will be addressed to the relevant Member’s compliance department. In relation to confidentiality generally, the LME confirms	Yes in relation to confidentiality – paragraph 9 has been amended

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	<p>the Member would otherwise not have access to, which could give rise to confidentiality issues. To mitigate such potential issues, the Respondent suggests the LME request for trading rationale reports is directed at a Member's compliance department as opposed to the front or back office.</p>	<p>that any information will be treated confidentially in accordance with the provisions relating to confidentiality contained in Regulation 16 of Part 2 of the LME Rulebook</p>	
	<p>Under Paragraph 9 each Member is expected to put in place appropriate procedures to identify positions in excess of Accountability Levels. The current systems are not sufficient to monitor Accountability Levels. There will be an IT impact to Members in implementing the Proposal, and it would be better if the LME could make use of the data provided to it via the DPRS system.</p>	<p>As noted above, the LME will amend the original Proposal such that there is no automatic reporting obligation by Members. Therefore, there should be no IT impact arising from the implementation of Accountability Levels.</p>	<p>Yes – see above comments.</p>
	<p>The Respondent proposes to change paragraph 9 to state that (1) a Member will only upon request of the LME have to provide a trading rationale for its house positions or reach out to a Client to ask for the Client's trading rationale and to pass this information to the LME if the Client discloses it, and (2) to remove the requirement that each Member will have to monitor Accountability Levels of its Clients.</p>	<p>See above comments</p>	<p>Yes – in addition to the changes to reflect that there is no automatic reporting obligation, paragraph 9 has also been amended to clarify that, where appropriate, Members should encourage their Clients to provide all relevant information directly to the LME, and in such cases the Member will have been deemed to have met the necessary requirement.</p>
	<p>The respondent questions whether the positions subject to reporting requirements are end-of-day or intra-day?</p>	<p>The LME confirms that it will apply to end-of-day positions only.</p>	<p>Yes – paragraph 8 has been amended to clarify this point.</p>

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	<p>The proposal states that a breach of the Accountability Levels or the LME Rules may result in disciplinary action against a Member. This seems to contradict the statement in paragraph 3 of the introductory notice that “Members and their Client(s) may hold positions that are in excess of the Accountability Level.” Should the first sentence of paragraph 13 instead allow for disciplinary actions against a Member that fails to comply with the Accountability Level Notice rather than the Levels as such?</p>	<p>The LME has amended former paragraph 13 (now paragraph 12) to reference failure by a Member or Client to comply with “the requirements of this document” or a direction issued by the Exchange shall constitute a breach of the LME Rules which may result in disciplinary action.</p>	<p>Yes – paragraph 12 has been amended to clarify this point.</p>
	<p>A Client is likely to have entered into relationships with more than one Member. The Member will have no information regarding positions the Client may have with another Member, whereas the LME will have full visibility of all positions of a Client. If such aggregation shows that a Client’s position is in excess of the Accountability Levels, the LME can request one or more Members (i.e. the Member where the Client holds the highest position, which is the approach taken by certain other exchanges) to reach out to the Client and ask for its trading rationale. If the Member refuses to comply with such request, then its behaviour could be considered a breach of the LME Rules and the LME has the power to instigate disciplinary proceedings. However, if a Client continues to breach the Rules, then accountability for failure to comply should reside with the Client, not with the Member. If the LME chooses to proceed with its proposal to introduce possible disciplinary actions against its Members for breaches of the Accountability Level policy by its Clients, the Respondent would be</p>	<p>The LME has no direct relationship with the Client. The contractual relationship is between the Member and the Client. The LME is therefore unable to hold the Client accountable, or to take disciplinary action against the Client, for failure by the Client to observe the Accountability Levels. The LME confirms that any failure by a Member to comply with the requirements of the Accountability Levels document, or with a direction issued by the Exchange, shall constitute a breach of the LME Rules which may result in disciplinary action against the Member pursuant to Part 2 of the LME Rulebook. Equally, failure by any Member to ensure that it’s Client(s) comply with the Accountability Levels document, or comply with a direction issued by the Exchange, shall constitute a breach of the LME Rules which may result in disciplinary action against the Member. The LME reserves the right to bring</p>	<p>Yes in relation to paragraph 12.</p>

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	<p>grateful for further clarification on the process around such sanctions. If a Client is holding positions across multiple Members and the aggregate of all positions brings the Client over the Accountability Levels, which Member would be facing disciplinary action – the Member with whom the Client holds its largest position even though this position may be below the Levels or would it be all firms with whom the Client holds its positions? The Respondent proposes amending the first sentence of paragraph 13 to read “failure to comply with the requirements of Accountability Levels Notice”. The Respondent further proposes the removal of the last sentence of paragraph 13 and consequential changes to paragraph 8.</p>	<p>disciplinary action against all Members with whom the Client holds its positions. The reason for this is that the Member may not know the size of its Client's holdings with other Members, and therefore it may not be aware of whether it is the Member with whom the Client holds the largest position. The LME considers that the most likely scenario regarding disciplinary action against a Member regarding its Client would be where the Client had refused to comply with a request for information or a direction issued by the Exchange. It is possible that Members will need to consider amending their terms of business to compel their Clients to produce information where required by the LME and to comply with any directions issued by the LME.</p>	
Respondent 2	<p>The Respondent seeks further clarification around when the LME would require a Member to obtain further information with regard to a position that had reached a relevant Accountability Level. Paragraph 4 states that exceeding the Accountability Levels will allow the LME to request further information. Paragraph 5 states that if a position exceeds the Single Prompt Accountability Level then the LME will request further information as to the nature and purpose of the position. Further, paragraph 9 states that Members must report to the LME the rationale behind holding a position in excess of the Accountability Levels.</p>	<p>As noted above, the LME is amending the Proposal such that there is no longer an automatic reporting obligation on the part of Members or their Clients.</p>	Yes – see above.
	The Respondent seeks clarification as to the level of	Because this will vary on a case-by-case basis	No.

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	information required. For example, would a Client simply confirming that “the position is speculative” or “the position is hedging our physical exposures” be sufficient.	it is not considered appropriate to detail they type of information required as this could limit the extent of relevant information provided if a position-holder chooses to just provide that which is set out in the Notice.	
	The Respondent considers that the Accountability Levels are too low, and should be 25% greater than the proposed levels, and that there should be higher level for short-dated carries. The Respondent calculated that it would have breached the Single Prompt Date Accountability Level 3 times for one metal and 3 times for another metal for the period January to March 2016. The Respondent also believes the Exchange should consider whether there should be a higher level set for shorted dated carries such as cash to 4 months.	The Accountability Levels have been based upon a two-year lookback at the spread of positions relative to open interest. There has been no look-across between the metals as the intention is to identify positions that would be of interest in terms of size in each metal. For the sake of ease of implementation, the levels have been set the same for both Single Prompt as for All Prompts, but this may change over time. The LME believes the Accountability Levels are appropriate, reasonable and proportionate.	No. However, please note that the Accountability Level for Copper has been increased from 5,000 to 7,000 lots – see paragraph 7.
	Given the IT implications for implementing Accountability Levels it is considered this will take between 3 and 6 months. The Respondent asks that this be taken into consideration.	As there will be no automatic reporting obligation so there will be no IT impact arising from the implementation of Accountability Levels. However, the LME will provide Members with appropriate notice prior to the implementation of Accountability Levels.	Yes – the LME will provide 3 months’ notice of the date of implementation of Accountability Levels.
Respondent 3	The Respondent supports the LME’s efforts to increase transparency in the market and facilitate fair and accurate price discovery. In the view of the Respondent, current LME rules allow a select few market participants with easy access to low cost capital to take sizeable positions which may be largely unrelated to their physical metal business and can be used solely to influence a price or spread.	The LME notes these comments.	No.

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	<p>The Respondent questions the LME's Proposal to apply the same 15,000 lots level for both Single Prompt Accountability Levels and All Prompt Accountability Levels. The Respondent proposes changing the Single Prompt Accountability Level to a "Single Month Accountability Level". Under the LME's current proposal, the rules might allow a counterparty to have just fewer than 15,000 lots on every prompt date within a month without any requirement to report, provided that its net position does not trigger the All Prompt Accountability Level. The cumulative effect over a month's time could easily impact the nearby spread.</p>	<p>Whilst the scenario is possible, this would be identified as part of the routing position monitoring, and hence it is not considered appropriate to amend the proposal to take account of this eventuality.</p>	<p>No.</p>
	<p>The Respondent noted that the Accountability Levels have been based on back testing of actual market positions over two years. However, in the view of the Respondent, recent LME warehousing rule changes have incentivised metal to be moved off-warrant. Therefore there are fundamental changes to market behaviour, and it may be possible to impact a prompt month or series of months by taking a smaller position than what would have been required to create the same impact only a year or two ago. The Respondent proposes that Accountability Levels should be set, not based upon open interest, but upon a percentage of total warrants.</p>	<p>The introduction of Accountability Levels was intended to mirror similar arrangements on other markets, where open interest has been used to as the base for the levels. With Lending Rules looking at warrant holdings as well as open interest, it is felt that Accountability Levels should remain based upon open interest.</p>	<p>No.</p>
<p>Respondent 4</p>	<p>The Respondent is concerned that the recent concentration in nearby positions in the aluminium market, in combination with "deficiencies" in the structure of LME warehousing, has distorted price discovery on the Exchange. The LME must focus on ensuring price discovery on the Exchange is beyond</p>	<p>The LME notes the comments. In relation to warehousing, the LME directs the Respondent to the LME warehouse reform page of the LME website <a href="http://www.lme.com/trading/warehousing-and-brands/warehousing/lme-warehouse-">http://www.lme.com/trading/warehousing-and-brands/warehousing/lme-warehouse-</a></p>	<p>No.</p>

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	reproach to ensure that its market functions in an orderly manner in accordance with its regulatory obligations. The Respondent is concerned that large positions can have a negative impact on the market and welcomes that the LME is tightening its procedures to monitor large positions in the market that might have an undue impact on price and other market functions.	<a href="#">reform/</a>	
	The Respondent recognises that the additional data which will be collected by the LME is highly confidential and must be kept that way. The Respondent proposes that the LME publishes more information to the market on Forward Bandings, going out to at least 24 months for aluminium and copper – compared with 3 as it is today. The Respondent further proposes that the Forward Bandings reports should identify whether the positions are long/short, financial/non-financial.	The LME notes that these proposals are not directly related to Accountability Levels. The LME would be happy to consider such proposals when it next reviews Forward Bandings. The LME would also be happy to discuss such proposals with the respondent in a meeting.	No.
	Where Disciplinary Action is taken: (i) LME should announce its decision and the reason for it; (ii) If an investigation does not lead to disciplinary action, then this should also be made known to the market (on an anonymous basis); and (iii) There should be an agreed timeframe within which the LME should report to the market.	The LME notes that these proposals are not directly related to Accountability Levels. The LME notes that, where Disciplinary Action is taken, the relevant rules provide for publication of a notice. The LME does not agree that it would appropriate for a notice to be published where an investigation is commenced and this does not lead to disciplinary action.	No
Respondent 5	The Respondent does not object per se to the introduction of Accountability Levels.	The LME notes these comments.	No.
	The Respondent considers the level for copper (5,000) to be too low, arbitrary and not reflective of the	The Accountability Levels have been based upon a two-year lookback at the spread of	Yes, the LME has increased the copper Accountability

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	<p>current market state. A likely outcome is the suppression of traded volume which will greatly diminish copper's status as the flagship contract and pricing mechanism recognised throughout the world. The Respondent cites statistics showing that the last 2 years aggregate open interest for copper has exceeded that of both zinc and nickel, and that daily volume across all contracts for copper is well above that of both zinc and nickel. Therefore it is illogical that a much larger market should have Accountability Levels lower than much smaller markets for zinc and nickel.</p>	<p>positions relative to open interest. There has been no look-across between the metals as the intention is to identify positions that would be of interest in terms of size in each metal. That said, a review of the level for copper does indicate that it could be increased with no reduction in the overall ability to monitor positions.</p>	<p>Level from 5,000 to 7,000 lots (see paragraph 7).</p>
	<p>The Respondent is concerned that the Accountability Levels may be considered to be limits and hence constrain trading. The Respondent is also concerned that Accountability Levels are unlikely to be altered by the LME.</p>	<p>The LME notes that other markets have both Accountability Levels and position/delivery limits in place, so many market participants are already aware of the difference between the two. Further, when position limits are introduced with MiFID 2, so even more firms will be made aware of the distinction. The LME further notes that the Proposal makes it clear that the Accountability Levels are not limits (see paragraph 3). The LME will keep Accountability Levels under regular review and may alter them as appropriate.</p>	<p>No.</p>
<p>Respondent 6</p>	<p>The Respondent expresses its belief that there is widespread objection to the Proposal which goes far beyond the requirements of certain other exchanges.</p>	<p>The LME notes this concern but does not believe that this is borne out by the feedback received to the Proposal. However, the LME has taken on board the feedback received and altered the Proposal as set out in the Decision Notice.</p>	<p>Yes – see above.</p>
	<p>The Respondent proposes that the LME adopts the approach taken by certain other exchanges with</p>	<p>See comments in relation to Respondent 1 above.</p>	<p>Yes – see above.</p>



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	regard to Accountability Levels.		
	The Respondent argues that, if adopted, the Proposal will give rise to IT work and cost.	See comments in relation to Respondent 1 above.	No.
	The Respondent considers the copper level to be too low.	See comments in relation to Respondent 5 above.	Yes, the LME has increased the Copper Accountability Level from 5,000 to 7,000 lots (see paragraph 7).
	The Respondent is concerned that the Proposal may have unfortunate commercial consequences for the LME. The Respondent is concerned about client confidentiality. The Respondent is also concerned that the Proposal will have a detrimental impact to business as firms will not want to be subject to increased regulatory oversight.	The LME notes that certain other exchanges have both Accountability Levels and position/delivery limits in place, so many market participants are already aware of the difference between the two. Further, when position limits are introduced with MiFID 2, so even more firms will be made aware of the distinction. Finally, the regulatory environment continues to evolve as one where market participants are required to provide more information to regulators as a matter of routine. The LME therefore believes that the proposed Accountability Levels are proportionate, reasonable and necessary. The LME confirms that all information provided pursuant to the Accountability Levels requirements will be treated confidentially in accordance with the requirements of the LME Rules, including in particular Regulation 16 of Part 2 of the LME Rules. The Proposal has been amended to reflect this.	Yes in relation to confidentiality (see paragraph 9)
Respondent 7	The Respondent argues that DPRS contains full details of every LME position held by Members and Clients and does not see why any additional reporting	See comments in relation to Respondent 1 above.	Yes – see above.

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	requirements are necessary.		
	The Respondent is unaware of any other exchange that requires a separate report in respect of its Accountability Levels.	See comments in relation to Respondent 1 above.	No.
	The Respondent believes that the Proposal is likely to be work and expense to implement.	See comments in relation to Respondent 1 above.	No.
	The Respondent questions the need for daily reporting each and every time a position exceeds the relevant Accountability Level. The respondent notes that, at certain other exchanges, the exchange has the right to ask for information in respect of positions above the accountability level, but does not require each and every position above the level to be explained in terms of its underlying trading rationale.	See comments in relation to Respondent 1 above.	Yes – see above.
	The Respondent expresses concern about potential IT security issues regarding submitting highly sensitive commercial and proprietary information via email. The Respondent requests that the LME clarifies how it will ensure that the information will be kept securely and how it will ensure that the information is confined to those in market monitoring and surveillance roles.	The LME routinely collects information which is of a sensitive nature as part of its normal market monitoring and surveillance activities. Any additional information received as a result of a position held in excess of the relevant Accountability Levels would be treated in the same, secure and confidential manner.	No.
	The Respondent questions the detail of information that could be provided, and asks whether it will be sufficient to cite e.g. “speculation”.	The LME will not accept what are effectively one-word answers, but at the same time recognises that the degree of information that will be provided will vary on a case-by-case basis.	No.
	The Respondent expresses concerns about Clients holding positions across a number of Members, and also where they are long with one Member and short with another, and in both cases are in excess of the Accountability Level – the Respondent considers this	The Proposal makes clear that Clients can report direct to the LME if they wish to: the information does not have to go via the Member. In the example cited, if the Client was happy to provide the rationale to each	No (but the LME notes that paragraph 9 has been amended to clarify that, where appropriate, Members should

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	to be a waste of time in reporting the rationale for both positions. The Respondent believes this could also lead to Clients holding positions below the Accountability Levels to avoid reporting them, and believes that it should be the LME that continues with its direct relationship with Clients to monitor positions in excess of the Accountability Level.	Member (for the long and short position), and this was relayed to the LME, then the obligation would be met. If the LME considered that it would be more appropriate in future to deal directly with the Client, then this could be arranged. The LME notes, however, that it does not have a direct contractual relationship with Clients of Members, and cannot compel the Client to produce information directly to it.	encourage their Clients to provide all relevant information directly to the LME, and in such cases the Member will have been deemed to have met the necessary requirement).
	The Respondent seeks clarification as to how the Accountability Levels were determined and how they would work alongside the existing Lending Rules.	The Accountability Levels have been based upon a two-year lookback at the spread of positions relative to open interest. There has been no look-across between the metals as the intention is to identify positions that would be of interest in terms of size in each metal. The Lending Rules would continue to operate as they do today.	No.
	The Respondent expresses concern that the Accountability Levels may affect the well-established market practice of “warrant-sifting” (i.e. sourcing premium material).The Respondent notes that any unwanted (non-premium) material is quickly delivered back to the market by the establishment of a large short position. It is feasible that both the long and the subsequent short position would be captured by the Accountability Levels. The Respondent is also concerned that, if the Accountability Levels would be imposed as <i>de facto</i> position limits, then the practice may no longer be permitted.	In the example cited, if the long and the short position exceed the relevant Accountability Levels, then the LME may request further information with regard to each position. However, the LME confirms that the Accountability Levels are not <i>de facto</i> position limits.	No.
	The Respondent believes that a “large” position is not necessarily “inappropriate”. The Respondent believes	The LME agrees that a large position is not necessarily inappropriate. The LME believes	No.

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	the requirements are unduly burdensome and inappropriate.	that the Accountability Levels are necessary, reasonable and proportionate.	
Respondent 8	The Respondent argues that the LME already has full transparency of all positions. The Respondent expresses concern about a Member's obligation where the position is held across the market. The Respondent believes that a Client of a Member may have positions with multiple Members and may not be willing to share its trading strategy with one Member. A Client of a Member would take requests from the Exchange more seriously than from a Member.	The LME notes that it does not have a direct contractual relationship with Clients of Members, and cannot compel the Client to produce information directly to it. The LME notes that paragraph 9 clarifies that, with regard to Client positions, Members are only required to report positions that they hold on behalf of Clients, and not those positions that Clients may hold with other Members. Further, the revised paragraph 9 (formerly paragraph 10) states that "where appropriate, Members should encourage their Clients to provide all relevant information directly to the LME, and in such cases the Member will have been deemed to have responded to the LME's original request for additional information."	Yes, paragraph 9 has been amended to clarify that, where appropriate, Members should encourage their Clients to provide all relevant information directly to the LME, and in such cases the Member will have been deemed to have met the necessary requirement
	The Respondent expresses concern that Accountability Levels could become limits.	The LME confirms that this is not the case.	No.
Respondent 9	The Respondent asks whether, as a Client of a Member, they would be covered by the Proposal.	The LME confirms that this would be the case.	No.
	If the Accountability Levels were to change, would a position that was previously under the level but now over need to be reported?	Yes.	No.
	Is there a possibility that the position may be required to be reduced?	Yes.	No.
	Do the levels apply at a broker level?	No, the Accountability Levels apply at the Client holding level, across the market (except in respect of house positions held by Members).	No.

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	Is the All Prompt level on a net or gross basis?	Net.	Yes – clarificatory wording has been inserted in paragraph 7.
	Are positions of subsidiaries and affiliates included?	Yes, all positions held on the market are included. Paragraph 11 states that “As with the publication of large position information and the Lending Rules, in calculating the total positions of two or more entities acting in concert for the purposes of the Accountability Levels, the LME shall aggregate the positions of a Client across all Members. Likewise the LME shall aggregate the positions of a Member or Client and such entity’s related group companies unless the entity can demonstrate that the positions were independent.”	No.
Respondent 10	Is “Single Prompt” each deliverable prompt date in isolation, net by client.	Yes.	Yes – clarificatory wording has been inserted in paragraph 7.
	How is a position calculated/measured against the ‘All Prompt Accountability Level’ i.e. which contracts are considered under ‘All Prompt’ and how are positions on different contract dates aggregated (e.g. net / sum of absolutes / other) if aggregation is required	The levels are calculated as a net long/short over all prompt dates held by an individual Client or Member	Yes – clarificatory wording has been inserted in paragraph 7.
	How were the levels reached?	The Accountability Levels have been based upon a two-year lookback at the spread of positions relative to open interest. There has been no look-across between the metals as the intention is to identify positions that would be of interest in terms of size in each metal. The Lending Rules would continue to operate as they do today.	No.

