

To: All Members

Ref: 17/394

Classification: Consultation

Date: 14 December 2017

Subject: **DECISION NOTICE – CONSULTATION ON POLICY RELATING TO FAST MARKET**

## Summary

1. This notice (this “**Decision Notice**”) is issued following the end of the consultation period as notified to the Membership by way of Notice No. 17/354, issued on 23 October 2017 (the “**Consultation Notice**”). This Decision Notice consulted Members and other interested parties on a proposal to implement a policy covering circumstances where the market experiences significant volatility, amongst other things, to be known as “**Fast Market**”.
2. The Exchange (the “**LME**”) is grateful for the comments received from the Membership in response to the consultation and has considered them carefully. This Decision Notice summarises the responses received, the LME’s comments on those responses, and how the proposal will be implemented.

## Defined Terms

3. Terms not otherwise defined in this Decision Notice shall have the meaning ascribed to them in the Rules and Regulations of the LME (the “**Rules**”, “**Rulebook**”, or “**LME Rulebook**”).

## Background

4. Notice No. 17/354 set out that in advance of the implementation of MiFID II, and to have in place a number of policies relating to the operation of the market, the LME determined it would be appropriate to introduce a policy with regard to Fast Market.



## Responses received

5. The table below summarises the responses received to the Consultation Notice. The LME's comments on each response are set out below.

Member response	LME Comment
(i) Comment that participants of the Market Making Agreement will not have to fulfil their obligations when the market is most volatile and their liquidity provision is needed the most.	(i) Whilst the LME acknowledges the importance of liquidity provision, the LME believes it is reasonable for participants in the Market Making Agreement to reduce their obligations in periods of significant volatility, and this will be governed by the relevant terms of any Market Making Agreement.
(ii) Comment that it is likely price reporting from the Ring would be achieved on a best endeavours basis during a Fast Market.	(ii) The LME agrees; paragraph 7 (a) of the policy states that reporting of quotes will be on a best endeavours basis for prices of orders and trades in the Ring.
(iii) Would market-on-close orders in a Fast Market still be required to be filled by a Ring Dealing Member in the Kerb trading session?	(iii) Any such instance of a requirement for an order to be accepted, or filled, would be at the discretion of the Ring Dealing Member and their Client. The LME does not impose rules on the commercial agreement between participants.
(iv) Would market-on-close orders in a Fast Market still be required to be filled by a Ring Dealing Member in the Ring 2 trading session?	(iv) Any such instance of a requirement for an order to be accepted, or filled, would be at the discretion of the Ring Dealing Member and their Client. The LME does not impose rules on the commercial agreement between participants.
(v) Would all existing orders placed by a participant in LME Select remain in the system during a Fast Market?	(v) Subject to adherence of the rules specified in Part 3, Section 12 of the LME Rulebook, existing orders will not be inactivated or cancelled by the LME during a Fast Market.
(vi) Is it possible for a trade to be price-adjusted or cancelled during a Fast Market?	(vi) The initiation of a Fast Market will not affect the LME Select Error Trade Policy, and therefore the provisions of the Policy will still apply. To protect the integrity of the



Member response	LME Comment
	<p>market the LME may price-adjust or cancel a trade, at its absolute discretion, if it determines that the trade was a clear or serious error.</p> <p>During Ring and kerb trading sessions, the LME Quotations Committee may choose, at its absolute discretion, to disregard trading activity for pricing purposes which is consistent with the LME's procedures for determining the Official and Closing Prices where a Fast Market does not exist.</p>

### Implementation and timing of proposal

6. Taking into account the responses received, the LME has decided to implement the proposal set out in the Consultation Notice without amendments. The policy with regard to the Fast Market, which is attached to this Decision Notice, will therefore come into effect from 3 January 2018.

### General

7. If Members or any other interested parties have any questions or requests for further clarification regarding the implementation of the proposal as described in this Decision Notice, please contact [mifidtest@lme.com](mailto:mifidtest@lme.com)

**Marcos Castro**

**Company Secretary**

cc: Board directors  
Trading Committee  
Ring Dealers Committee  
Special Committee



## **Appendix**

### **Fast Market Policy**

#### **Introduction**

1. This document sets out the steps the Exchange (the “LME”) will take in the event that the market experiences periods of significant volatility, and a “Fast Market” is declared.

#### **Defined Terms**

2. Capitalised terms not otherwise defined herein shall have the meaning ascribed to them in the Rules and Regulations of the LME (the “LME Rulebook”).

#### **Policy**

3. There may be occasions when significant periods of volatility may persist on an intraday basis or over a longer period of time. Volatility may be defined either by price volatility, or by significant market activity in terms of order placement and trades.
4. In the event that the LME determines, at its sole discretion, market conditions are more volatile than usual, and consequently the factors outlined in section 7 are applied, this shall be known as a “**Fast Market**”.
5. A Fast Market may be declared with regard to a single product, group of products, or for the market as a whole; and similarly the cessation of a Fast Market may also be applied on the same basis.
6. In determining whether or not to declare a Fast Market the LME will take into account, without limitation, the factors outlined below:
  - (a) Market conditions and volatility for all contracts in the relevant product.
  - (b) Levels of liquidity for all contracts in the relevant product.
  - (c) Any relevant economic data or news stories displayed by market data vendors.



- (d) The possible market disruption that could be caused by declaring or not declaring a Fast Market.
  - (e) Any other information that the LME considers in the circumstances to be relevant.
7. In the event that the LME declares a Fast Market the following shall apply:
- (a) **Ring** – the reporting of quotes will be on a best endeavours basis for prices of orders and trades. However, there will be no reporting of volumes of orders and trades.
  - (b) **LME Select and LME Smart**– Dynamic Price Banding limits will be set to the next widest banding. For example, if the current limits are set to *Normal* then the banding will be set to *Wide*.
  - (c) **Market Making Arrangements** – where the LME has introduced market making arrangements or incentive programmes for certain of its products, then the market making obligations may be relaxed in accordance with the relevant terms and provisions of the market making agreement or incentive programme Notice. For the avoidance of doubt, the declaration of a Fast Market will constitute stressed market conditions for the purposes of the LME’s market making agreements.
8. The declaration of a Fast Market will be communicated to the market by way of a market message on LME Select. Further updates, such as the duration of the Fast Market, may also be communicated via market messages on LME Select.
9. When the LME, at its sole discretion, has determined that normal market conditions should apply, a market message will be sent on LME Select to inform market participants.
10. The LME may also halt trading in exceptional circumstances such as, without limitation, war, industrial action, civil unrest or cyber sabotage. In such circumstances the LME will notify market participants by way of a market message on LME Select and/or such other appropriate method of communication.
11. Where the likely duration of the trading halt is known at the outset, then the LME will communicate the steps that will be taken to resume trading, including the



proposed timeline. However, where it is uncertain when trading might safely be resumed, the LME will provide updates to the market throughout the incident and when a decision has been made with regard to the resumption of trading.