

To: All members and other interested parties

Ref: 16/202 : A196

Date: 03 June 2016

Subject: **INTRODUCING BROKER ARRANGEMENTS FOR THE LME**

Summary

1 The LME understands that non-member brokers who are active in the ferrous markets wish to participate in the LME's new Ferrous Contracts. In order to promote liquidity in the new Ferrous Contracts, this Notice confirms how the LME's existing introducing broker ("IB") arrangements can be facilitated on the LME's market in respect of its Ferrous Contracts.

Defined Terms

- 2 An IB is defined, for LME purposes¹, as:
- (i) a person who introduces a prospective counterparty (i.e. a Client) to a Member (with a view to the counterparty and the Member transacting together on a principal to principal basis); or
 - (ii) a person who acts as agent for a counterparty and enters into transactions on behalf of the counterparty with LME Members; or
 - (iii) a person who acts as agent for an LME Member and enters into transactions on behalf of the Member with counterparties.
- 3 Terms not otherwise defined in this Notice shall have the meaning ascribed to them in the Rules and Regulations of the LME (the "Rulebook").

Background

- 4 Notice 00/385:A378:R012 dated 15 September 2000 sets out the LME rules on IBs.
- 5 The LME understands that there are circumstances where counterparties may wish to agree trades in the LME's inter-office (i.e. telephone) market while retaining their anonymity. Such trades can be facilitated by IBs. For

¹ See LME Notice 00/385:A378:R012, Rules on Introducing Brokers dated 15 September 2000.



example, Client A and Client B may each wish to execute a trade without showing their interest to the market. The IB will know the identity of Client A and Client B, agree the price and trade with both parties, but will not reveal the identity of each to the other.

- 6 The LME is a principal to principal market. There are two types of Contract on the LME: Exchange Contracts and Client Contracts. Broadly, Exchange Contracts are Contracts made between two Clearing Members. Client Contracts are Contracts made between a Category 1, 2 or 4 Member and any other person². Only a Category 1, 2 or 4 Member or an agent of a Category 1, 2 or 4 Member can make an LME price to a Client or another Member, and agree an LME Contract.
- 7 Therefore, on the LME market, a Client will never trade with another Client directly. The Client will enter into a Client Contract with a Category 1 or 2 Member, and the Category 1 or 2 Member will enter into an Exchange Contract with another Category 1 or 2 Member. That other Category 1 or 2 Member may itself have a Client, in which case it may agree a Client Contract with such Client³.
- 8 Accordingly, the IB will effectively be helping to facilitate this contractual flow. For example, in a scenario where an IB, acting as agent for LME Member A, arranges a trade between Client A and Client B, where Client A holds a fully disclosed clearing account with Member A and Client B holds a fully disclosed clearing account with Member B, the resultant Contracts will be as follows:
 - (i) Client A will enter into a Client Contract with Clearing Member A;
 - (ii) Clearing Member A will enter into an Exchange Contract with Clearing Member B; and
 - (iii) Clearing Member B will enter into a Client Contract with Client B.
- 9 In facilitating such an arrangement as set out in paragraph 8 above, the IB will never become a principal to the resultant LME Contracts but will receive a commission from Client A and Client B in respect of its services. Client A will never know the identity of Client B, and vice versa.
- 10 For the avoidance of doubt, the scenario noted in paragraphs 8 and 9 above is for illustrative purposes only as there are a number of other ways in which the relationship between the counterparties can be arranged.

² Or a Contract made between a Category 1 or 2 Member and a Category 4 Member.

³ For simplicity, this description ignores Category 4 Member arrangements.



Introducing Broker Arrangements

- 11 The LME confirms that its Category 1, 2 and 4 Members may enter into arrangements with IBs for Ferrous Contracts in respect of the LME's telephone market. Category 1, 2 and 4 Members should undertake such due diligence as they deem appropriate in respect of the IBs and maintain a list of IBs with whom they have entered into such arrangements, and must produce such list upon request from the LME, together with any other documentation relating to such arrangements, including but not limited to Give-Up Agreements and Agency Agreement(s) as the LME shall require from time to time.
- 12 Any arrangements which a Category 1, 2 or 4 Member shall enter into with its Clients or with any IBs shall be the responsibility of the Category 1, 2 or 4 Member. The LME does not specify any form of agency agreement or have any liability in respect of any arrangements entered into. Members are reminded of the Rules for give-up transactions set out in LME Notice 00/383 : A376 : R010, Rules For LME Give-Up Agreements.
- 13 The Category 1, 2 or 4 Member shall be responsible for the entry of all LME Contracts into the Matching System as currently.
- 14 The requirements of Notice 00/385:A378:R012, Rules On Introducing Brokers, dated 15 September 2000 shall remain in effect.

Questions

- 15 Questions in relation to any issue raised by this Notice should be directed to the Client Advisory and Membership Services Department of the LME at Client.Advisory@lme.com.

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