

To: All Members

Ref: 17/214

Classification: Consultation

Date: 28 June 2017

Subject: **DECISION NOTICE – CONSULTATION ON PROPOSAL TO INTRODUCE ACCOUNTABILITY LEVELS AND POSITION LIMITS FOR LMEprecious CONTRACTS**

Summary

1. Notice No. 17/162, issued on 9 May 2017, consulted members and other interested parties on a proposal to introduce accountability levels and Position Limits for LMEprecious Contracts.
2. Having reviewed and analysed the feedback received, the London Metal Exchange (“**LME**”) has determined that it will implement the proposal with effect from 10 July 2017, subject to regulatory approval.

Background

3. Notice 17/162 set out that in advance of the implementation of the Markets in Financial Instrument Directive II (MiFID II), and in order to promote a fair and orderly market and prevent abuse, the LME was considering introducing accountability levels and Position Limits for the LMEprecious Contracts and sought the views of Members on this proposal.
4. Notice 17/162 followed an earlier Notice (17/124, dated 10 April 2017) which had also sought views on this topic. Following Member responses, the LME withdrew the proposal set out in Notice 17/124 and replaced it with the proposal set out in Notice 17/162. Details of the revision to the proposal are set out in Notice 17/162.
5. The LME received comments from one Member in response to the consultation and has considered them carefully. The Comments Table in **Appendix I** to this Notice summarises the response received and the LME’s comments on that response.



Implementation and timing of proposals

6. The LME has decided to implement the proposal. Accountability levels and Position Limits for LMEprecious Contracts, as further described in **Appendix II** to this Notice, will be introduced from 10 July 2017, which is the go-live date for LMEprecious (subject to regulatory approval).

General

7. If Members or any other interested parties have any questions or requests for further clarification regarding the implementation of the proposals as described in this Decision Notice, please contact the LME Market Surveillance department at (Market.Surveillance@lme.com).

Peter Mason
Head of Market Surveillance

cc: Board Directors
Trading Committee
Ring Dealers Committee



Appendix I Summary of Feedback and Responses to Notice 17/162

Question 1 – Do you agree with the implementation of accountability levels and Position Limits for LMEprecious Contracts? If not, please provide further details as to why.

Respondent	Comment	LME Response
Respondent 1	<p>The respondent did not object to the implementation of accountability levels.</p> <p>The respondent did however seek clarity on why the LME was looking to agree limits so far ahead of the MiFID II implementation date and prior to LMEprecious launch date. The respondent questioned whether it would not be prudent to wait for LMEprecious market data prior to implementing limits to ensure that the product launch and growth was not hindered by position limits on day one?</p>	<p>The LME has an obligation to ensure that it has appropriate position management arrangements in place at all times, regardless of the implementation of MiFID II. As LMEprecious Contracts are based on unallocated gold and silver, the LME Lending Rules would not be applicable as there is no equivalent to LME live stocks for these Contracts. Accountability levels and Position Limits are therefore required to ensure that there are effective position management arrangements in place for these Contracts.</p>

Question 2 – Do you believe the proposed thresholds for accountability levels and Position Limits for LMEprecious Contracts are appropriate? If not, please provide further details as to why.

Respondent	Comment	LME Response
Respondent 1	<p>The respondent commented that “while the levels proposed by the LME are higher than the CME’s COMEX division’s current levels, the limits are significantly lower than those of the re-proposed Federal Position limits of 6,000 [spot] and 19,500 [Single Month / All Months].”</p> <p>The respondent further commented that re-proposed Federal limits take into consideration higher liquidity than earlier assessed. Given that the London bullion market is the most liquid Gold market in the world, far larger than the COMEX market, and the LME contract is structured to move liquidity from the underlying London cash market to the futures market, they questioned whether the LME should contemplate higher position limits and accountability levels reflective of the greater liquidity of the London market place.</p>	<p>Noted. However, the level at which accountability levels and Position Limits are set can be adjusted. The LME will closely monitor the appropriateness of accountability levels and Position Limits for LMEprecious Contracts between 10 July 2017 and the implementation of MiFID II and, in the event that changes are required, will communicate changes to the market with due notice.</p>



Appendix II

ACCOUNTABILITY LEVELS AND POSITION LIMITS FOR LMEprecious CONTRACTS

Summary

1. This document sets out accountability levels and Position Limits for the LMEprecious Contracts.

Defined Terms

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

Background

3. The LME continuously undertakes surveillance on all positions as well as having Lending Rules and accountability levels to ensure orderliness and transparency for its LME Base Contracts. For LME Base Contracts, dominant positions subject to LME Lending Rules are based on LME live stocks. In addition, the LME's Premium Contracts for aluminium have Position Limits based on deliverable supply in line with the MiFID II guidelines. As LMEprecious Contracts are based on unallocated gold and silver, the LME Lending Rules would not be applicable as there is no equivalent to LME live stocks for these Contracts. Therefore, Position Limits will be introduced from 10 July 2017, together with accountability levels, to ensure that there are effective position management arrangements in place for these Contracts.
4. A single accountability level shall apply to all Prompt Dates, and a single position limit, shall equally apply to all Prompt Dates. There is no distinction between spot and non-spot Prompt Dates.

Accountability Levels

5. The accountability levels published by the LME shall apply to all Prompt Dates, and shall be triggered where the net position held for all Prompt Dates exceeds the relevant accountability level. Exceeding the relevant accountability level does not impose an automatic obligation on the position holder to report directly to the LME, or reduce or otherwise adjust the position. However, upon request the Member will be required to provide the LME with further information regarding the position of that account or linked accounts, and the LME may also give directions to the Member in respect of the position of that account or linked accounts.



The table below sets out the accountability levels for the LMEprecious Contracts. The accountability level will only be triggered where the net position for all Prompt Dates exceeds the level specified below. For example, a Member might be long 6,000 lots across all Prompt Dates and short 3,000 lots: in this case the net position would be long 3,000 lots, and the accountability level would not be triggered.

LMEprecious Contract	Accountability Level (lots)
Gold	4,000
Silver	4,000

Accountability levels are set at a lower level (in lots) than the relevant Position Limit so as to act as an early warning of the existence of a large position held on the market.

6. 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. Where the LME requires further information with regard to any position held that is in excess of the accountability level, it will if it wishes contact the position holder directly. The LME is aware that the information provided may include commercially sensitive information and therefore will be held in confidence in accordance with the provisions of Part 2 of the LME Rulebook.

Position Limits

7. The Position Limit published by the LME shall apply to all Prompt Dates, and shall be triggered where the net position held exceeds the relevant Position Limit. Where a position exceeds the relevant Position Limit, the LME will request further information regarding the position of that account or linked accounts, and the LME may also give directions to the Member in respect of the position of that account or linked accounts. The table sets out the Position Limits for the LMEprecious Contracts.

LMEprecious Contract	Position Limits (lots)
Gold	8,000
Silver	8,000

8. Upon request, Members are required to provide all relevant information relating to the position to the LME. 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. Where the LME requires further information with regard to any position held, it will if it wishes contact the position holder directly. The LME is aware that the information provided may include commercially sensitive information and therefore will be held in confidence in accordance with the provisions of Part 2 of the LME Rulebook.

Reporting & Surveillance

9. Pursuant to Notice 09/213 : R004 dated 26 May 2009, Members must report to the LME all Warrant and trading positions for all customer accounts and all house accounts as at the close of business each day. This shall include positions for LMEprecious Contracts, although it should be noted that the reporting of Warrants does not apply for LMEprecious Contracts. The market surveillance department of the LME shall use this data to monitor positions of all Members and Clients in LMEprecious Contracts on a daily basis. 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, the LME shall aggregate the positions of a Member or Client and such entity's related group companies unless the entity could demonstrate that the positions were independent. The LME will also aggregate the positions of unconnected parties if the LME market surveillance department believes that there is a common purpose between such parties. In such cases the LME will inform the parties either direct or through the Members with whom they trade.

General

10. The attention of Members and their Clients is drawn to the relevant provisions of the LME Rulebook regarding LMEprecious Contracts and Position Limits, including without limitation Part 13 (the LMEprecious Contract Regulations) and Part 3 (in particular the provisions regarding Position Limits). In particular, pursuant to the Position Limit provisions of Part 3, Members shall comply with and shall co-operate with the LME to ensure that each of their Clients shall comply with the Position Limits and any directions issued by the LME in accordance with the requirements for such Position Limits as the LME may specify in Administrative Procedures or as the LME may otherwise notify Members from time to time. For the avoidance of doubt, such directions may include a requirement to reduce a position to below the relevant Position Limit. Where issued with such a direction, a Member shall, or shall procure that its Client shall, comply with such direction without delay.
11. Failure by a Member to comply with the accountability levels and/or Position Limits specified by the LME, or with a direction issued by the LME, 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 a Member to ensure that its client(s) observe the accountability levels and/or Position Limits, or comply with a direction issued by the LME, shall constitute a breach of the LME Rules which may result in disciplinary action against the Member.

12. The LME reserves the right to modify the accountability levels and/or Position Limits, or any other information set out in this Notice, from time to time by issuing an amending or replacement Notice.