

To: All members

Ref: 17/354

Classification: Consultation Trading

Date: 23 October 2017

Subject: **CONSULTATION ON POLICY RELATING TO FAST MARKET**

Summary

1. This Notice consults Members and other interested parties on a proposal to introduce a new policy covering circumstances where the market experiences significant volatility, amongst other things, to be known as “Fast Market”.

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”).

Background

3. The term “Fast Market” is widely used to describe circumstances where there is significant volatility, amongst other things, and results in the exchange or market operator taking certain steps with regard to the operation of the market. Such steps may include, without limitation, changes in the publication of market data with regard to open-outcry trading, and changes to any market making arrangements that the exchange or market operator may have in place.
4. The declaration of a “Fast Market” may be made with regard to a single product, group of products or for the market as a whole, and both the declaration and cessation of a “Fast Market” is communicated to market participants in an appropriate manner.



5. In view of the forthcoming implementation of MiFID II, and the requirement to have in place a number of policies relating to the operation of the market, the LME has determined that it would be appropriate to take this opportunity to also introduce a policy with regard to “Fast Market” (**Appendix 1**).

The Consultation

6. The LME seeks the views of all Members and other interested parties in respect of the proposal. Responses to the consultation should be made in writing to tradingoperations@lme.com no later than the close of business on 17 November 2017. Responses after this date will not be taken into consideration. Though the LME will consider comments and feedback submitted in any format, in order to assist the process of considering responses, it would be most helpful if respondents replied to the following numbered questions:

Q.1 – Do you agree with the proposed policy as set out in Appendix 1 to this Notice? If not, please provide further details as to why.

Q.2 – Are there any other matters which you believe the LME should take into account in relation to the changes set out in this Notice?

7. The LME welcomes any questions or requests for further clarification regarding this matter. Any such questions or requests should be directed by email to mifid@lme.com.
8. The LME may need to share the responses received with regulatory authorities, its legal advisors, other professional advisers, or as required by law. Anonymised responses (verbatim or paraphrased) may be included in the decision Notice stating the outcome of this consultation. Apart from this, all responses will be treated in confidence.
9. The matters contained in this Notice are subject to consultation and, following this consultation, and after due consideration, the LME may either implement:
 - a) the proposal, a modified version of the proposal or an alternative to the proposal;



b) any other measure(s); or

c) no measures at all.

Costs & Benefits

10. The LME does not envisage significant costs to Members in complying with the policies. In any event, the policies are necessary to allow the LME to comply with the requirements of MiFID II; therefore the LME is legally obligated to make the changes. The LME has not identified any unintended consequences as a result of the proposals. The LME is interested in the views of respondents to the consultation in this regard.

Implementation

11. Following the closing date of the consultation, the LME will advise Members and other interested parties as soon as is practicable on the results of this consultation.

Peter Childs
Head of Trading Operations

cc: Board directors

Trading Committee



Appendix 1

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.