

To: All Members

Ref: 17 395

Classification: General updates

14 December 2017

Subject: **WAIVER OF PRE-TRADE AND DEFERRAL OF POST-TRADE
TRANSPARENCY REQUIREMENTS FOR CERTAIN TRADED
OPTION TRANSACTIONS**

Summary

1. Members will be aware that MiFID II provides for waivers and deferrals to be granted to trading venues with regard to certain pre- and post-trade transparency obligations. The London Metal Exchange (the “**LME**”) already operates a deferred publication regime with regard to certain Traded Option transactions, and in response to a market consultation that commenced in November 2016, it applied for a waiver of the MiFID II pre-trade transparency obligations, and deferral of MiFID II post-trade transparency obligations for certain large Traded Option transactions.
2. The LME has been advised that its applications have been successful, and this Notice provides details of the waiver and deferral that have been granted with regard to certain large Traded Option transactions, with effect from 3 January 2018 onwards.
3. Terms not otherwise defined in this Notice shall have the meaning ascribed to them in the Rules and Regulations of the LME (the “**LME Rulebook**”), or the Matching Rules, as appropriate.

Background

4. MiFID II imposes obligations upon trading venues to make public orders and transactions on both a pre- and post-trade basis. These obligations are designed to increase the level of transparency across markets, and as such apply equally to all trading venues. However, MiFID II recognises that there are legitimate reasons why certain transactions should be exempt from such



obligations, in particular those transactions that are considered to be large in scale (“**LIS**”).

5. LIS transactions should be able to be exempt from pre-trade transparency or benefit from a deferral of post-trade transparency obligations so as to avoid the impairment of liquidity as an unintended consequence of the obligations to disclose such transactions and thereby to make public risk positions.
6. The LME already operates a deferred publication regime with regard to Traded Option transactions. This was first introduced with effect from 8 February 2016 (Notice 15/305 : A297 dated 2 October 2015 refers), with the thresholds revised from 15 August 2016 (Notice 16/240 : A234 dated 5 July 2016 refers). Traded Options and Traded Average Priced Option (“**TAPOs**”) (together “**Options**”), that are transacted above the relevant threshold are deferred from publication for 48 hours from the time that the transaction is matched within the LME’s Matching System.
7. In November 2016, the LME consulted the market on a number of changes to the reporting of Option transactions (Notice 16/365 : A358, dated 28 November 2016 refers), including whether the deferred publication regime should continue following the implementation of MiFID II on 3 January 2018. The response to this consultation was that the regime should continue, and that accordingly, the LME should seek the appropriate waiver and deferral available under the MiFID II regulations.
8. The LME has been advised that it has been granted a waiver from pre-trade transparency obligations and a deferral of post-trade transparency obligations (together “**the revised publication regime**”) with regard to certain LIS Option transactions, as detailed below.

Details of LIS Option Revised Publication Regime

9. Only those Option transactions that are executed on the inter-office venue will be subject to the revised publication regime. Option transactions arising from orders submitted to LME Select will continue to be published in real-time via the market data feed.



10. The thresholds for determining whether an Option transaction, executed on the inter-office venue, is to be considered LIS and hence subject to the revised publication regime are as follows:

Metal	LIS Threshold (transaction must be equal or greater than)
Aluminium	1,000 lots
Aluminium Alloy	500 lots
Copper	500 lots
Lead	500 lots
NASAAC	500 lots
Nickel	500 lots
Tin	100 lots
Zinc	500 lots

11. For the avoidance of doubt, Option transactions that fall below these thresholds, regardless of execution venue, will be published in real-time via the market data feed.
12. Members will be aware that in order to meet the pre-trade transparency obligations with regard to the inter-office venue the LME intends to publish each half-trade that is submitted to its Matching System, on a real-time basis. However, those half-trades that represent LIS Option transactions will be withheld from publication.
13. When a half-trade that represents a LIS Option transaction is matched, the resulting matched trade will not be published immediately to the market. Instead, the transaction will be published after the close of business on the business day following execution (T+1), at 19:00 hours (London time), via the market data feed.



14. Members that execute LIS Option transactions will be required to identify such transactions when submitting the appropriate transaction reports as required under MiFID II. To assist Members in the identification of such transactions, the LME will make available a flat file with those LIS Option transactions that have been executed by each Member.
15. The flat file referred to above will be produced on a daily basis, and will be published to the Exchange Member SFTP location. For the avoidance of doubt, the file will only contain details of LIS Option transactions executed by that Member.
16. Members are advised that the thresholds detailed in section 10 above will be subject to review, and that any changes will be advised to the market by way of Notice.

Further Information

17. For further information relating to this Notice, Members should contact their Relationship Manager (rm@lme.com).

Marcos Castro

Company Secretary

cc: Board directors

Traded Options Committee