

To: All Members and other interested parties

Ref: 18/093 (LME Notice)
18/011 (LMEC Notice)

Classification: Trading

Date: 9 April 2018

Subject: **INTRODUCTION OF LME PRECIOUS LIQUIDITY PROVIDER PROGRAMMES IN ASIAN HOURS**

Summary

1. This Notice announces the launch of the tender process for the new liquidity provider programmes (the “LP Programmes”) for Asian hours trading in the LME Gold and LME Silver contracts (the “LMEprecious Contracts”).
2. LMEprecious is the initiative created by The London Metal Exchange (the “LME”), LME Clear and the World Gold Council together with Goldman Sachs, ICBC Standard Bank, Morgan Stanley, Natixis, OSTC and Société Générale, introducing a suite of exchange-traded and centrally-cleared precious metals products.

Background

3. The LMEprecious Contracts were launched on 10 July 2017 and as communicated to LME Members in Notice 17/229 issued on 6 July 2017 (the “Original Market Maker Notice”), the Exchange intended to enhance participation and liquidity in the LMEprecious Contracts by entering into contractual agreements with the above entities for the provision of price streaming, which addresses price provision during 8am – 6.30pm London time.
4. This Notice announces the launch of the tender process for the new LP Programmes for price provision in 1am - 8am London time (“Asian hours”) and includes details of the relevant criteria for qualification, the commencement date, the relevant incentives, the tender and application process, the rebate process and certain other information.
5. The LMEprecious Contracts have experienced a significant increase in trading volumes and open interest. Since launch, total traded volume is approximately 877,000 lots for LME Gold and 147,000 lots for LME Silver. The Original MM Programmes have been instrumental to the successful launch of the LMEprecious Contracts, providing tradeable quotes that often surpass the criteria to which market makers had originally agreed. This programme will continue, any changes will be communicated by a separate Notice.



6. The terms and conditions of the LP Programmes are detailed in this Notice.
7. For the avoidance of doubt, participation in the LP Programmes is not intended to constitute pursuit of a Market Making Strategy for the purposes of MiFID II such that participants have to execute the MiFID II Market Making Agreement (which is the subject of Notice 17/355). Participants in the LP Programmes shall be required to adhere to the terms and conditions set out in this Notice, but unless they also meet the criteria of providing a Market Making Strategy for MiFID II (e.g. quoting within a maximum bid-ask spread of \$0.10 for LME Gold, or \$0.005 for LME Silver, pursuant to Notice 17/389), will not be required to execute the MiFID II Market Making Agreement simply because of participation in the LP Programmes in and of itself.

Defined Terms

8. Terms not otherwise defined in this Notice shall have the meanings ascribed to them in the Rules and Regulations of the LME (the “LME Rules”).

New LMEprecious LP Programme

9. The LME invites market participants to submit proposals for the LP Programmes. Members or their Clients are eligible to become Liquidity Providers. Interested parties are requested to submit their proposals in respect of the LMEprecious Contracts and will be selected, in accordance with the process set out in paragraph 23 below. The Exchange will select designated Liquidity Providers promptly after receiving proposals for the LP Programmes.
10. It is expected that the Exchange will appoint up to three liquidity providers for each of the LMEprecious Contracts but more, or fewer, may be appointed if the LME determines that the programme objectives can be best met through the appointment of a different number of liquidity providers.
11. The LP Programmes will commence on 1 June 2018 and terminate on 31 May 2019.
12. The selected Liquidity Providers for the LP Programmes will be eligible for trading and clearing fee rebates and stipends toward operational costs for the price provision activity. Further details of how these incentives will be paid are set out in paragraphs 29-37 below.

Eligibility Criteria for participation in the LP Programmes and submission of proposals

13. All interested Members or Clients are eligible to submit tenders to become liquidity providers in one or both of the LP Programmes.
14. Interested parties are invited to submit their liquidity provision proposals to the LME Precious Metals team at lmeprecious@lme.com no later than 27 April



2018, to be considered by the Exchange for the initial shortlist of new liquidity providers. The interested parties applying for the LP Programmes must be ready to commence liquidity provision on 1 June 2018.

LMEprecious Liquidity Provision Parameters

15. An interested party must provide the following parameters (the “Liquidity Provision Parameters”) for each of the LP Programmes it wishes to be considered for:
 - (i) the LP Programmes being applied for (LME Gold or LME Silver);
 - (ii) the contract months to be quoted;
 - (iii) the maximum bid-offer spread size;
 - (iv) the minimum lot size for each bid and offer;
 - (v) the percentage of Asian hours it will be able to provide two-way symmetrical continuous quotes at the specified maximum bid-offer spread and minimum lot size.
16. Interested parties must also submit, as part of their application, additional information related to:
 - (i) the operational costs (such operational costs are likely to include the costs of staff responsible for liquidity provision, IT software and IT support) that are expected to be incurred in performing the liquidity provision activities in support of the stipend amount for which they are applying;
 - (ii) knowledge of the precious metals industry; and
 - (iii) previous trading activity in derivative contracts.
17. All proposals must be supported with evidence that the interested party has the ability (including internal technical systems, controls and infrastructure) to fulfil the LP Parameters set out in its submission. Where an LME Member is applying on behalf of its Client, the Member must also demonstrate that it has the ability (including internal technical systems, controls and infrastructure) to support the relevant LP Parameters.
18. Interested parties are invited to review the Exchange’s preferred LP Parameters set out in Appendix 1 (“LME Liquidity Provision Parameters”) and are advised to either exceed or match these parameters to the extent possible.



Incentives for the LP Programmes

Fee Rebates

19. Liquidity providers (or in cases where the liquidity provider is a Client, the liquidity provider's specified Member) will be eligible to receive a full rebate of all trading and clearing fees charged by the Exchange for the Contracts resulting from the firm's liquidity provision activities, together with a monthly stipend towards technology and personnel costs for each programme for which a firm has been appointed as a liquidity provider. For liquidity providers selected through this LP Programmes selection process, trading and clearing fee rebates shall apply to all trades which form part of the firm's liquidity provision activities only during 1am – 8am London time, from such date as the Exchange may declare onwards.

Stipend

20. Liquidity Providers shall also have access to a monthly stipend of US\$7,500 per programme subject to meeting the conditions of their agreed LP Parameters.

Shortlisting selection criteria

21. The Exchange will base its selection on the following objective criteria:

- (i) whether the applicant can exceed the LME LP Parameters;
- (ii) where not exceeded, the difference between the commitments made in the applicant's LP Parameters and the LME LP Parameters; and
- (iii) the evidence provided to demonstrate the applicant's ability to meet the commitments proposed in the LP Parameters on a regular basis. For example, evidence of previous trading activity and market making in similar contracts will be taken into consideration.

The Exchange's right to review the LP Programme

22. The Exchange reserves the right to review and revise the LP Programme every three months, or more frequently if required. The Exchange also reserves the right to terminate the LP Programme or deselect any of the Liquidity Providers appointed for the LP Programme, with or without notice, if it deems it is in the best interests of the market to do so.

Application process for the LP Programme

23. The Exchange intends to contact the selected liquidity providers promptly after they have been shortlisted for having met the selection criteria set out in paragraph 21 and will send the shortlisted Members (or in the case of Clients, their nominated Members) an application form to complete. The application form



for the LP Programmes will also be made available on the LME website or can be requested from the Precious Metals team at Imeprecious@lme.com.

24. The Member shall complete the application form for the liquidity provider programme and provide all relevant information which the Exchange shall require in respect of the Member liquidity provider or the relevant Client liquidity provider, as appropriate. It is the responsibility of the Member to ensure that all information included on the application form is complete and correct. Incorrect information will affect, and possibly lengthen, the application process and could affect payments under the relevant programme. The provision of false or misleading information may lead to disciplinary action under the LME Rules.
25. Proposals can be submitted on behalf of a sole legal entity or on behalf of several companies provided they are all within the same corporate group (the "Group")¹. Any interested party which is not a Member of the LME must submit their proposals through an LME Member.
26. The decision of the Exchange will be made according to the selection criteria outlined in paragraph 21 above and subject to the Exchange being satisfied as to the ability of the applicant and, where appropriate, its Member, to fulfil the LP Parameters outlined in its proposals.
27. However, subject to the regulatory requirements applying to the Exchange, the final selection of the liquidity providers for each of the new programmes will be at the absolute discretion of the Exchange and the Exchange retains the right to select or decline any Member or Client into the programmes.
28. The Exchange will notify the market by way of Notice once the successful applicants have been selected for the LP Programmes. The Notice will include details of the LP Parameters for each selected liquidity provider. The Notice will also be made available on the LME website. Unless instructed otherwise by the successful applicant, the names of successful applicants will be disclosed in the Notice.

Payment process

29. Liquidity Providers (or in cases where the Liquidity Provider is a Client, the Liquidity Provider's specified Member) will be eligible to receive a full rebate of all trading and clearing fees charged by the Exchange for the LMEprecious Contracts resulting from the Liquidity Provider's activities under the LP Programme (only during Asian hours), together with, where applicable, the relevant stipend payment.

¹ "Group" includes any holding company or subsidiary company of a company; any company which is a subsidiary company of any holding company of that company. The expressions holding company and subsidiary company shall have the meanings assigned to them by Section 1159 of the Companies Act 2006.



30. The Exchange shall be under no obligation to correct any underpayment of fee rebates resulting from any inaccurate information provided on the application form.
31. The Exchange shall use a FIX key, issued to the liquidity provider, alongside an LMEselect FIX tag 58 to track liquidity providers' trading volumes. Users must ensure that both the FIX key and the FIX tag 58 client code used for order entry match the client code on the application exactly. Traded volume transacted through a different FIX key and FIX tag 58 will not be eligible for rebates nor will they be deemed to contribute to the liquidity provider's trading obligations.
32. Each full stipend will only be paid where liquidity providers are posting two-way quotes of the specified spread and minimum lot size for 100% of the time specified in their LP Parameters for the relevant contract (as calculated over the course of one calendar month).
33. If the liquidity provider does not meet this requirement then each stipend would be reduced proportionately, subject to a minimum requirement of 50% of the time specified in their LP Parameters. For the avoidance of doubt, no stipend would be paid to liquidity providers quoting for less than 50% of the time specified in their LP Parameters (as calculated over the course of one calendar month).
34. For example, Firm A commits in its LP Parameters to provide two way quotes of a specified maximum bid-offer spread and minimum lot size for 80% of the time between 1am-8am London time. However, the Exchange calculates that over the course of one calendar month, Firm A was present, on average, for only 60% of the time during 1am-8am London time. Firm A has therefore been present for only 75% of the committed time period and it will receive only 75% of the stipend for that particular month. Adjustments may be made at the discretion of the Exchange.
35. Rebates and stipends will be credited to Members two months in arrears for the LP Programmes. For example, liquidity provision activities conducted in May will be calculated in June and credited in July.
36. Under the LP Programmes, the Exchange will not calculate rebates in respect of Client liquidity providers who trade through multiple Members. The application form will require that each Client selected to act as a liquidity provider identifies a single Member through which it will pursue its liquidity provision strategy. Whilst the Client will be allowed to trade on the Exchange generally through any Member, only liquidity provision trades initiated by the Client through the Member identified on the application form (or as notified by the Client to the Exchange from time to time) will qualify for the relevant rebates and will be included when calculating the extent to which it has fulfilled its obligations as a liquidity provider in the LP Programmes.
37. Where a single Category 1 Member or Category 2 Member has multiple liquidity provider Clients, the LME will provide the Member with a breakdown of the relevant rebates and stipend, itemised per FIX Tag 58 liquidity provider keys.



Requirements for trading on the Exchange

38. Members must have the ability to add multiple FIX tag 58 client codes to their pre-trade risk management system.
39. When liquidity providers trade, they will be allowed a grace period of five seconds to re-enter the required bid or offer, to ensure that they are maintaining their bid-offer spread, notwithstanding that the liquidity provider has entered into a trade with another market participant.
40. If a liquidity provider proposes making changes to the details it originally provided in its application, the Member should note that the Exchange will need at least two weeks before such changes are acknowledged and processed by the Exchange. Any such changes will have to be reviewed and approved by the Exchange. Members and Clients should note this may delay the payment of rebates and stipends by the Exchange.

Rules

41. The LP Programme shall be subject to the terms and conditions set out in the LME Rules.

Limits, term and termination

42. The Exchange reserves the right to limit the number of participants in the LP Programmes or include other such limits, restrictions, conditions or clarifications as it may specify by Notice from time to time.
43. The LP Programmes will commence on 1 June 2018 and terminate on 31 May 2019.
44. Without prejudice to the above paragraph, the Exchange reserves the right to alter, restrict, suspend or terminate the LP Programmes at any time by Notice.

No direct relationship between the Exchange and Client

45. The benefits under the LP Programme are made available by the Exchange to the relevant Member. It is the responsibility of the Member and the relevant Client to determine between them the basis and extent to which any benefits under this programme may be passed on to the relevant Client. The Exchange has no responsibility to any Client for any passing on of such benefits by the Member. In the event that any Client does not receive the benefit of any rebate or stipend made available by the Exchange to a Member, this is solely a matter between the Member and the relevant Client and no party shall have any claim or right of recourse against the Exchange.



Questions

46. Members or other interested parties with any questions in respect of the LP Programmes are invited to contact the LME Precious Metals team by email at lmeprecious@lme.com.

Kate Eged
Head of Precious Metals

cc: Board directors



Appendix 1 LMEprecious Liquidity Provision Parameters²

Programme	LME Gold	LME Silver
Prompt months to be quoted	Spot M1 to M6 Either as outright or as spreads	
Percentage of Asian hours during which the liquidity provider must quote	90%	
Quote type	2 ways, symmetrical volumes	
Required maximum bid-offer spread	The required maximum bid-offer spread in the spot contract will be 3 ticks during Asian hours	
Minimum lot size on each side	The minimum number of Lots required to be quoted on each side will be 5 Lots	

² Alternative combinations of the LP Parameters can be taken into consideration and negotiated as part of the selection criteria set out in this Notice.