

To: All members and other interested parties

Ref: 18/194 (LME Notice Reference)
18-026 (LME Clear Notice Reference)

Classification: Consultation

Date: 1 August 2018

Subject: **CONSULTATION ON PROPOSED AMENDMENTS TO THE LME AND LME CLEAR RULES – STRATEGIC PATHWAY INITIATIVES AND MISCELLANEOUS RULE AMENDMENTS**

Introduction

1. The London Metal Exchange (the “**LME**” or the “**Exchange**”) and LME Clear Limited (“**LME Clear**”) seek the views of Members and other interested parties in relation to proposed amendments to the Rules and Regulations of the LME (the “**LME Rulebook**”) and the LME Matching Rules (“**Matching Rules**”), and to the LME Clear Rules and Procedures (“**LME Clear Rules**”).
2. The proposed amendments relate to the following:
 - (i) Section A – Strategic Pathway initiatives:
 - introduction of a new category of membership – Registered Intermediating Broker (“**RIB**”) membership;
 - introduction of a suite of eight new cash-settled futures contracts (“**Cash-Settled Futures**”);
 - introduction of LMEprecious options contracts (“**LMEprecious Options**”); and
 - the ability for the LME to use a VWAP-based electronic pricing process for Closing Prices (proposed in the context of the trial of electronic pricing for nickel “three-months date” contracts);
 - (ii) Section B – Miscellaneous LME Rule amendments; and
 - (iii) Section C – Miscellaneous LME Clear Rule amendments.

Defined Terms

3. Terms not otherwise defined in this notice (“**Notice**”) shall have the meaning ascribed to them in the proposed revision of the LME Rulebook or Matching Rules, set out at <https://www.lme.com/en-GB/About/Regulation/Rules/Rulebook>, or the LME Clear Rules set



out at <https://www.lme.com/en-GB/LME-Clear/Rules-and-regulations#tabIndex=1>, as applicable (and in each case set out in redline, comparing against the version of the relevant Rulebook, or the Matching Rules, currently in force).

Background

4. In light of market participant feedback, the LME and LME Clear have prepared a single, consolidated consultation that addresses proposed LME Rulebook and LME Clear Rule amendments.
5. This Notice sets out the rationale for these proposals, along with the text of the proposed LME Rulebook and/or LME Clear Rule amendments needed to give effect to them, and seeks market participant feedback on the same.
6. For ease, Appendix 1 of this Notice includes a table that maps the proposed LME Rulebook and/or LME Clear Rule changes to the relevant initiative within this Notice (“**Mapping Table**”). Additionally, given the breadth of topics covered, the LME and LME Clear have allowed for a longer than usual consultation period of eight weeks.

The consultation process, timing and steps following the consultation

7. This consultation is open to all interested parties, including, without limitation, Members, Clients of Members, Affiliates of Members and other market participants.
8. Formal responses to the consultation should be submitted in writing. Although the LME and LME Clear will, as applicable, consider responses submitted in any format, it would be helpful if respondents could provide comments using the template set out Appendix 2 (“**Consultation Response Template**”).
9. The consultation will remain open for responses until close of business on 28 September 2018. Responses made after the closing date of the consultation will not be taken into consideration. The LME will consider all responses received by the closing date.
10. Any market participant wishing to ask questions or to seek clarification on any issue covered by the consultation, or wishing to submit a response to the consultation, is asked to do so by email to consultation@lme.com.
11. The LME and/or LME Clear may need to share responses received with regulatory authorities, members of its group, and its legal or other professional advisers, or as required by law. Anonymised responses (verbatim or paraphrased) may be included in the Notice(s) stating the outcome of this consultation. Apart from this, all responses received will be treated in confidence.



12. All of the changes to the Rules detailed in this Notice are subject to regulatory approval before they can become effective. Following due consideration, the LME and/or LME Clear, as applicable, may implement:
 - (a) in respect of any or all of the consultation proposals, that proposal, a modified version of that proposal, an alternative to that proposal, or no measure in respect of that proposal;
 - (b) any other measure(s); or
 - (c) no measures.
13. Following this consultation and once regulatory approval is received, LME and LME Clear will advise Members via one or more Notices when changes to the LME and/or LME Clear Rules, and LME Matching Rules, will take effect. We expect the changes to take effect from Q4 2018, and they may come into effect on a phased basis.

Section A – Strategic Pathway initiatives

Introduction of RIB membership

14. In the Strategic Pathway (see LME Notice 17/302 dated 7 September 2017, section 7.3), the LME set out the increasing importance of introducing brokers (as such term is defined in the Strategic Pathway) (“IBs”) to the LME ecosystem, in particular as the LME looks to develop its offering in new and growth products. The LME therefore intends to introduce a new category of “Registered Intermediating Broker”, or “RIB”, membership during November 2018, to formalise the basis on which these IBs may operate in the inter-office market. The RIB membership proposal is summarised at high level below and in detail in Appendix 3 of this Notice.
15. Subject to meeting the relevant eligibility criteria, RIB membership will be available to IBs that arrange trades in the inter-office market between interested parties, without themselves becoming a party to the trade. RIB membership will allow RIBs access to a purpose-built graphical user interface, the “Matching System RIB Screen”, which forms part of LMEsmart. In this way, RIBs will be provided with efficient trade registration functionality that will also enable anonymity to be maintained between Clients. To obtain RIB membership, a candidate must meet the relevant eligibility criteria, sign an Exchange Membership Agreement and meet applicable onboarding requirements. The LME notes that Members may hold RIB membership alongside existing Category 1 to 5 membership and any LMEprecious membership, on the basis detailed in Appendix 3, subject to meeting certain conditions.
16. The LME proposes that RIB membership will adopt a two-tiered structure and that the tiers will in turn determine which products a RIB may arrange trades in. Broadly speaking, Tier 1 RIBs will be permitted to broker all existing LME products, whilst Tier 2 RIBs will be restricted to selected products. Further detail is set out in Appendix 3.
17. Tier 1 RIBs should be subject to a B-share requirement that is commensurate with the requirements for other Membership categories. It is therefore proposed that a Tier 1 RIB’s



shareholding requirement and annual fees are commensurate with Category 4 membership. Tier 2 RIBs, on the other hand, will not be subject to a B-share requirement and their annual fee will be significantly lower.

18. The LME is aware that IBs currently operate within the LME ecosystem on an informal basis. The introduction of RIB membership is not intended to be mandatory for these IBs. Rather, the LME will maintain flexibility for existing IB-type arrangements to continue.
19. Further detail is provided in Appendix 3 in relation to the interaction between RIBs and Clearing Members, and RIBs and Clients; the operation of the Matching System RIB Screen; and the LME Rulebook, Matching Rules and LME Clear Rule amendments required to give effect to RIB membership.

New Cash-Settled Futures

20. The LME proposes to launch a suite of eight new Cash-Settled Futures to complement its existing product offering, which will comprise: Steel Hot Rolled Coil (“**HRC**”) North America, Steel HRC Northern Europe, Steel HRC FOB China, Aluminium Premium Duty Unpaid (“**DUP**”) US Midwest, Aluminium Premium DUP European, Alumina, Molybdenum and Cobalt. Subject to regulatory approval, the LME will launch the new Cash-Settled Futures during Q1 2019 and may stagger the launch by product(s).
21. The new Cash-Settled Futures are structurally similar to the LME’s existing Ferrous (Scrap and Rebar) Futures in most respects. In particular, the new Cash-Settled Futures will all be monthly cash-settled Contracts that will be listed in USD per metric tonne and tradeable on LMEselect and in the inter-office market. The Daily Settlement Price in all cases will be determined using a volume weighted average price (“**VWAP**”), with a pricing waterfall similar to the process used in relation to existing Ferrous Futures that will operate where there are insufficient VWAP volumes. All of the new Cash-Settled Futures will settle in USD in line with LME Clear’s existing cash settlement arrangements. Initially, all Cash-Settled Futures will be tradeable out to 15 months. However, the LME may in the future consider extending certain of the Cash-Settled Futures out to include additional tradeable months. Rulebook amendments will, as appropriate, be made in due course to reflect this change.
22. With the exception of Alumina, the new Cash-Settled Futures will utilise a Final Settlement Price based on the monthly average of a single index, to be provided by a third party index provider. It is proposed that Alumina Futures will settle against an average of two indices. The LME has, in the light of market feedback, identified preferred index providers for each of the settlement indices for the new Cash-Settled Futures and, subject to reaching contractual agreement, will announce the identity of the relevant index provider, and name of each of the indices that it intends to use for each of the new Cash-Settled Futures, in due course.
23. Changes will be required to the LME and LME Clear Rules to introduce the contract specifications for the new Cash-Settled Futures. To minimise amendments, the provisions relating to existing Ferrous Futures will be expanded to apply to all “Cash-Settled Futures”,



including existing Ferrous Futures. The LME notes that the contract specifications for the new Cash-Settled Futures do not currently include the last time for trade submission and that this is marked as “TBC” in each case. This is because this aspect of the contract specifications is determined by the specific index provider methodology which, as set out above, remains subject to contractual negotiation. The last trade submission time for each new Cash-Settled Future will be detailed in the relevant Notice(s) giving effect to the Rulebook changes associated with this initiative.

LMEprecious Options

24. The LME proposes, subject to regulatory approval, to launch LMEprecious Options to complement the existing LMEprecious Futures offering, towards the end of 2018, to be cleared by LME Clear.
25. LMEprecious options premiums will be determined by reference to options volatilities, which in turn will be determined on the basis of submitted options volatilities data to be provided to the LME in a prescribed format. LMEprecious options positions will also be margined by reference to these options volatilities. The exercise reference price that will be used to determine whether LMEprecious Options are in- or out-of the money will utilise a VWAP (with a pricing waterfall that will be followed where there are insufficient VWAP volumes).
26. LMEprecious Options will be similar to the existing (base) Metal Options, however there are a number of key differences more generally between Metal Options and the proposed LMEprecious Options.
27. These differences include (but are not limited to) the following features of LMEprecious Options:
 - (a) European-style options (like the LME’s existing Traded Average Price Options, as opposed to American-style, like Metal Options);
 - (b) expiry into the underlying monthly LMEprecious Futures Contract (listed out to 24 months);
 - (c) automatic exercise, as follows: in-the-money exercises; out-of-the money abandons; at-the-money call options exercise; and at-the-money put options abandon; and
 - (d) after contributed volatilities have been aggregated by the LME, and prior to sending them to LME Clear, an LME pricing tool will use the aggregated data to interpolate pricing points along the entire curve.
28. Amendments will need to be made to the LME and LME Clear Rules to give effect to this proposal.

Trial of electronic discovery of certain Closing Prices

29. The LME signposted its intention in the Strategic Pathway (at paragraph 4.4) to conduct an electronic price discovery trial in relation to the Closing Prices for a subset of LME Base



Contracts. As set out more fully in a separate market engagement document (LME Notice 18/195), the LME intends to conduct the trial in relation to the Closing Prices (used by LME Clear for daily margining purposes) for nickel “three-months date” (“**Nickel 3M**”) contracts.

30. It is proposed that the trial will commence in Q1 2019 and run for a period of three months. During this period, Closing Prices for Nickel 3M Contracts will be determined exclusively from LMEselect data using an electronic VWAP instead of Ring data (although the Quotations Committee will retain discretion to exclude data where this is deemed necessary to ensure a representative price, for instance in the event of a disorderly market or suspected manipulation). After the trial, the Closing Prices will revert to being calculated using Ring data while the LME assesses the results of the trial. During the trial period, electronically derived 3M Closing Prices will be used (in combination with Ring-derived prices for other tenors) to margin all new Nickel contracts (including Cleared Contracts and Client Contracts), as well as all existing Nickel contracts that are outstanding during the trial period. As noted above, the commercial parameters of the trial are subject to separate market engagement and Members and other interested parties who wish to provide feedback on the commercial proposition more generally are referred to LME Notice 18/195.
31. Certain changes will be required to the LME Rulebook to facilitate both the trial and (in the event that it is determined appropriate to do so in the light of the outcomes of the trial) wider use of electronic price discovery for the determination of Closing Prices.

Section B – Miscellaneous LME Rulebook and Matching Rule amendments

32. In addition to the Strategic Pathway initiatives above, there are a number of miscellaneous changes to the LME Rulebook and the Matching Rules that are also the subject of this consultation. These changes are summarised below and set out in the proposed revision of the LME Rulebook and Matching Rules, as applicable (available at <https://www.lme.com/en-GB/About/Regulation/Rules>). The Mapping Table provides an overview of the sections of the LME Rulebook and Matching Rules to which these changes relate. In addition to these consultation changes, there are a number of miscellaneous typographical and minor administrative changes that are also set out in the proposed revision of the LME Rulebook and Matching Rules, but which are not subject to consultation requirements. For ease of reference, these changes have also been listed in the Mapping Table (other than where they are purely typographical in nature).

Dynamic contract Rules

33. The LME proposes to make certain amendments to the LME Rulebook to provide for a more streamlined approach to introducing New Contracts, and making non-material modifications to Special Contract Rules for existing products, in the future. These LME Rulebook amendments will allow the LME to incorporate Special Contract Rules for New Contracts into the LME Rulebook (and make any other associated amendments to the LME Rulebook), by way of Notice (and without consultation). It is intended that these new Rules would be used in circumstances where the LME determines that the relevant products are similar to existing



products, and where they do not introduce any novel features and would not otherwise be expected to have any significant impact on the market or market participants. Where a new product does not meet these conditions, or where the LME otherwise determines that it is desirable to do so, the LME would consult on the introduction of the relevant Special Contract Rules (and any other necessary Rulebook amendments) in the usual way.

Arrangements for the prevention of disorderly trading and breaches of capacity limits

34. Under Regulation 1.5 of Part 3 of the LME Rulebook, the LME has an express ability to implement procedures to establish the maximum price fluctuations for each Metal Contract. In order to support the LME's ability to meet its regulatory obligation to ensure that business conducted by means of its facilities is conducted in an orderly manner, the LME proposes to broaden this provision to include any such arrangements as the LME may consider appropriate to prevent disorderly trading and breaches of capacity limits. Such arrangements may include, amongst other things, establishing maximum price fluctuations.

Suspension of Member access to LME systems and facilities

35. The LME proposes to amend Regulation 12.5 of the Trading Regulations in order to clarify that the Exchange may suspend a Member's access to any and all of the systems and facilities of the LME and that in doing so, the LME may also suspend such Member's Clients' access (where applicable). The term "systems and facilities of the Exchange" refers, without limitation, to any system or facility provided by the LME from time to time (including LMEselect, LMEsmart and LMEsword). The intention behind this amendment is to ensure that the LME has the ability to suspend an individual Member's access to one, several or all of the LME's systems and facilities where necessary, including, for example, to facilitate the effective management of circumstances that may lead to an Event of Default.
36. The LME also proposes to amend Regulation 19.1(f) of Part 3 to broaden the scope of this liability carve-out to reflect the proposed amendment to Part 3 above.

New sanctions-related Rules

37. In the light of recent international sanctions developments, the LME proposes to introduce amendments to the Common Membership Criteria set out in Regulation 4, and to Members' obligations as set out in Regulation 12, of Part 2 of the LME Rulebook. LME Clear will also reflect these amendments in its Membership Criteria and other relevant sections, as set out in the LME Clear Rules.
38. In summary, the proposed amendments provide for the following:
 - (a) building into the membership criteria an express right for the LME and LME Clear, as applicable, to refuse an application for Membership by a candidate that is subject to Sanctions (or whose Affiliates are subject to Sanctions) or whose admittance would expose the LME or LME Clear to a risk of infringing a Sanction; and



- (b) expansion of Members' obligations such that Members will be required (amongst other things) to: ensure that any business that they conduct (or that is conducted on their behalf) will not cause the LME or LME Clear to breach any Sanctions; implement adequate policies and procedures to ensure compliance with applicable laws, including Sanctions, and to provide evidence of such to the LME and/or LME Clear as required; notify the LME and LME Clear on becoming aware of any Sanction of which it has become the target, any change to the Member such that it becomes incorporated etc. in a sanctioned jurisdiction, and provide details to the LME of any order or transaction in metal derivatives that is made on or reported to the LME and would result in the LME or LME Clear being in breach of a Sanction.

- 39. The proposed definition of "Sanctions" is drafted intentionally broadly, and linked to sanctions imposed, administered or enforced from time to time by the EU, the UK, the US, and/or the UN Security Council.

Amendment to the LMEsword Regulations relating to LME powers in the context of a warehouse insolvency

- 40. In the light of a recent warehouse insolvency, the LME has determined that it is appropriate and desirable to introduce a new provision within the LMEsword Regulations (Part 10 of the LME Rulebook). This provision gives the LME express rights to take measures to ensure the ongoing orderly functioning of the market should similar circumstances arise in the future, or in the event of a warehouse de-listing.

Governing law and jurisdiction and appointment of UK process agent

- 41. The LME proposes to amend the LME Rulebook to introduce more detailed governing law and jurisdiction provisions. The proposed provisions build on existing Regulation 11.2, Part 4 (and reflect the language of the equivalent provisions within the Exchange Membership Agreement) to clarify that the LME Rules, and any Agreed Trades and Contingent Agreements to Trade, as well as Contracts, formed under the Rules shall be governed by English law. It is further proposed that the courts of England shall have exclusive jurisdiction to settle any dispute arising out of or in connection with the LME Rules.
- 42. In addition, the LME proposes to introduce a new provision to require Members that are not incorporated or registered in England and Wales to appoint and maintain a Process Agent in England or Wales. This provision reflects the existing requirement set out in the Exchange Membership Agreement, which has been signed by all Members, and therefore does not introduce any new obligations on Members – it is merely intended to ensure that the Exchange Membership Agreement and the LME Rulebook are aligned.
- 43. Together, these amendments are intended to clarify the basis on which, and ensure that, the LME Rulebook shall apply to any disputes that may arise under the LME Rulebook, in particular between: (i) the LME and a Member concerning the application of the LME Rulebook; and (ii) a dispute between two Members, or between a Member and their Client,



specifically concerning the validity of a Contract. These provisions are also designed to ensure that any judgements relating to aspects of the LME Rulebook can be easily enforced.

Delegation of Rulebook powers and responsibilities by the Directors

44. The LME proposes to amend the definition of “the Directors” in Part 1 of the LME Rulebook to encapsulate both the directors of the LME and their delegates, appointed from time to time. In this way, powers that are exercisable by the Directors (e.g. the power to suspend a Member where it is considered necessary to ensure an orderly market – Regulation 15.3, Part 2), and responsibilities that are currently reserved to the Directors (for example, the granting of admission to Membership) will be capable of delegation to such delegates as the Directors appoint. It is intended that such powers and responsibilities will, where appropriate, be delegated to the LME Executive Committee, in line with the LME’s applicable obligations set out in the FCA’s “Recognised Investment Exchanges” Handbook. Such delegations of authority by the Directors to one or more delegates will be appropriately documented in line with the LME’s internal governance requirements.

Changes to minimum Net Worth Requirements

45. As set out in paragraph 61 below, the LME Clear Minimum Net Capital Requirement (which term is equivalent to the minimum Net Worth Requirement in LME Rulebook terminology) has been changed from GBP £5 million to USD \$10 million. The corresponding LME Net Capital Requirement shall be revised to align with this LME Clear change. No amendments are required to the LME Rulebook to effect this change.

Changes to Default Settlement Price definition for certain products

46. The definition of Default Settlement Price will be amended in relation to (1) LMEprecious Futures; and (2) Ferrous Futures. This amendment corrects an administrative error whereby the Default Settlement Price for these products is currently stated as the Final Settlement Price on the next Prompt Date. The definition will be amended to refer to the Daily Settlement Price on the next Business Day, to reflect the monthly nature of these products. The amendment in relation to Ferrous Futures will be effected through the definition of Default Settlement Price as it applies to the expanded “Cash-Settled Futures” category of products.

Optional use of “UNA” trades in relation to Give-Ups and removal of fee restriction

47. To ensure that the market as a whole complies with the spirit and requirements of MiFID II, the LME requires Agreed Trades to be inputted into the Matching System within certain deadlines, set out in Regulation 3.5.1 of Part 3. These deadlines are (subject to certain exceptions): for inter-office trades, within ten minutes of the Contingent Agreement to Trade having been agreed; for Ring trades, within ten minutes of the close of the relevant Ring-traded period where the Agreed Trade was agreed; and for LMEselect, at the time of input of the order for the Agreed Trade.



48. During the course of market engagement undertaken prior to MiFID II taking effect, it was identified that the requirement for registering of Give-Up trades within the ten minute inter-office and Ring deadlines could be problematic for Members, given certain scenarios where the identity of the Give-Up Clearer (i.e. to whom the trade is to be given up) is not known by the executing Member within ten minutes of the Agreed Trade. For this reason, the UNA process was introduced, allowing a trade to be registered within the applicable deadline, which could later be cancelled or reversed and the trade simultaneously re-registered with the Give-Up Clearer named as the counterparty.
49. Following this informal market engagement, it was deemed simpler at that time to mandate the use of the UNA process in relation to all Give-Up trades (including in cases where the Give-Up Clearer's identity was known within the applicable deadline). This is the position that is currently reflected in the Matching Rules in relation to Agreed Trades that are agreed in the inter-office market and the Ring. In relation to LMEselect Give-Ups, the use of the UNA process is currently optional.
50. As MiFID II has embedded since implementation, the LME believes it is now appropriate to relax the mandatory requirement in the Matching Rules to follow the UNA process for inter-office and Ring Give-Ups. The Matching Rules (paragraphs 49, 50, 51, 52 and 54) will be amended to reflect this change, resulting in Members being able to elect to register an Agreed Trade via the UNA process or through other means, as long as the Give-Up trade is registered within the applicable deadline. Where it is not possible to register the Give-Up within the deadline, the UNA process would continue to be available. Compliance with the Agreed Trade registration deadlines will continue to be monitored by the LME.
51. Separately, the LME understands that certain Members are utilising the UNA process in a broader set of scenarios than originally envisaged when this functionality was made available. For example, certain Members issuing Client Contracts have found it advantageous to first register a Give-Up via the UNA process, thereby satisfying the applicable deadline, and allowing more time for registration of the Client Contract. The LME is content for the UNA process to be utilised in these broader contexts, but considers it appropriate to specifically authorise such use in the Matching Rules. The Matching Rules will be amended to reflect these broader uses (at paragraph 46).
52. Given the original mandatory use of the UNA process (even when the Member would have been able to satisfy the LME's matching deadlines without the use of the UNA process), a specific provision was inserted into the Matching Rules to provide comfort that UNA trades would not be subject to fees. The proposed changes will result in the use of the UNA process no longer being mandatory in respect of Give-Up business, and indeed, only being utilised where the Member is extracting a benefit from using the UNA process (specifically, the reduced operational burden that would otherwise be associated with the requirement to register a Give-Up, or other Agreed Trades, within the applicable deadline).
53. The LME therefore believes that it is appropriate to remove the restriction on levying fees on UNA trades (set out in paragraph 49 of the version of the Matching Rules currently in force),



given that: (i) the use of the UNA process will no longer be mandatory (i.e. it will be open to Members to register Give-Up and other types of Agreed Trade within applicable deadlines, thereby avoiding the need to use the UNA process, and any fee applied thereto); (ii) Members using the UNA process will benefit from their ability to do so, in turn giving rise to a legitimate basis for applying a fee for this use; and (iii) registration of trades via the UNA process creates a cost for the LME and LME Clear in respect of the processing of trades registered in this way.

54. In the event that the LME determines in the future to introduce any fees relating to the UNA process, or to any elements of this process or on the use of cancellations more generally, such fees would be established and implemented through the LME's standard processes relating to the setting of fees and charges. The LME would seek to provide market participants with reasonable advance notice of the introduction of any such fees, to permit those Members who do not wish to make use of the UNA process to revise their trade registration workflow accordingly.
55. Although the LME is allowing Members to use the UNA process more flexibly, Members are reminded that they are responsible, under the LME and LME Clear Rules and also under applicable law, regulation and/or contractual obligation, for ensuring that their positions are recorded at an appropriate position-keeping account at LME Clear.

Administrative changes to the Matching Rules

56. The LME will make certain administrative amendments to the Matching Rules, which are designed to align Matching Rule terminology more closely with defined terms used in the LME Rulebook. Additionally, in order to support a more scalable approach to updating certain operational aspects of the Matching Rules going forward, the LME proposes to remove from the Matching Rules, Appendix I (*Ring Trading Times*) and Appendix II (*Combinations of Matching Categories*). The information currently set out in Appendix I is available on the LME website and the Matching Rules will be updated to include a link to the relevant section of the website. The information set out in Appendix II relates to practical guidance that is also provided to Members by way of a Frequently Asked Questions document (“FAQ”) available from the LME Relationship Management team. In proposing to delete Appendix II, the LME proposes that this information will be provided to Members via the FAQs instead of housing it within the Matching Rules.

Section C – Miscellaneous LME Clear Rule amendments

57. In addition to the Strategic Pathway initiatives above, there are a number of miscellaneous changes to the LME Clear Rules that are also the subject of this consultation. These changes are summarised below and set out in the proposed revision of the LME Clear Rules (available at <https://www.lme.com/en-GB/LME-Clear/Rules-and-regulations#tabIndex=1>). The Mapping Table provides an overview of the sections of the LME Clear Rules to which these changes relate. In addition to these consultation changes, there are a number of miscellaneous typographical and minor administrative changes that are also set out in the proposed revision of the LME Clear Rules, but which are not subject to consultation



requirements. For ease of reference, these changes have also been listed in the Mapping Table (other than where they are purely typographical in nature).

Auction Process updates to reflect implementation of new mandatory auction tool

58. As discussed with the Risk Advisory Group, LME Clear is implementing a new tool to manage the mandatory auction process. In future, it is envisaged that Members will submit bids in LMEmercury rather than by email. Members will be able to revise their bid during the bidding process, and the final entered bid prior to the closing of the auction will be binding. Changes to reflect the introduction of the new tool have been made in Annex 8.

Bridge Institutions

59. FSB Guidance emphasises that continued access to Financial Market Infrastructures (including CCPs) for firms in resolution is essential for a successful resolution. Newly incorporated Bridge Institutions created by resolution authorities may not satisfy LME Clear's Membership Requirements (set out in Membership Procedure B3). Therefore we are proposing to amend the Rules to ensure that LME Clear has the necessary discretion to admit Bridge Institutions as Members. LME Clear must still comply with the EMIR requirement to ensure that clearing members have sufficient financial resources and operational capacity to meet the obligations arising from participation in a CCP and will keep any conditions imposed on the Bridge Institution under review.
60. Changes that are proposed to accommodate Bridge Institutions are as follows:
- (a) a new definition of Bridge Institution has been added in Rule 1 (Definitions);
 - (b) LME Clear will have discretion to impose conditions on an Applicant which is a Bridge Institution, in lieu of it meeting the Membership Criteria. This is reflected in a new paragraph 3.3 in the Membership Criteria in Membership Procedure Part B;
 - (c) Amendments have also been made to Rule 3.2.1 (On-going Membership Requirements) and Membership Procedure Part B:2.4, 6.1 and 7.1 (On-going Reporting Requirements) to reflect the fact that Bridge Institutions may be subject to conditions of Membership. A Member that is a Bridge Institution must provide evidence of its ongoing compliance with any conditions of Membership imposed on it when reasonably requested to do so by LME Clear and must also notify LME Clear when it ceases to satisfy or may cease to satisfy any such conditions.

Removal of Margin methodology from Product Specifications

61. In each of the Product Specifications in Annex 1, the field regarding Margin Model will be amended to cross-refer to the Clearing Procedures rather than specify the applicable margin methodology in the Product Specification itself. This will allow LME Clear to change its margin methodology by changing the Clearing Procedures rather than both the Clearing Procedures and the Product Specifications.



Changes to minimum Net Capital Requirements, notification triggers and Membership Criteria

62. The Minimum Net Capital Requirement has been changed from GBP £5 million to USD \$10 million. This is reflected in a change to Membership Procedure Part B: 4.4 (Minimum Net Capital Requirements).
63. The current requirement for Members to notify LME Clear of any fall in Net Capital or shareholder funds below 100% of the amount detailed in the Member's last financial accounts is considered unduly onerous in practice, so the requirement in Membership Procedure Part B: 7.6 will be modified so that only a fall of 15% or more, or which causes the Member to breach its Net Capital requirement or any regulatory threshold, will be notifiable.
64. An additional item has been inserted in the list of membership criteria in Membership Procedure Part B:3.1 to clarify that LME Clear must confirm that an Applicant has satisfied LME Clear's internal credit rating requirements before the Applicant may be admitted as a Member.

Postponed delivery (LMEprecious)

65. An additional provision has been inserted at Rule 7.9.1(b)(iv) to clarify that, where a Member fails to fulfil its delivery obligation under physically settled LMEprecious contracts and LME Clear permits that Member to postpone delivery, the Member may receive its cash after LME Clear's secured cash investments have unwound.

Sanctions-related Rules

66. The sanctions-related amendments are discussed more fully in paragraphs 37 – 39 above.

Miscellaneous administrative changes

67. A number of changes have been proposed to reflect the implementation of the General Data Protection Regulation (“**GDPR**”). In particular, LME Clear may use and disclose LME Clear Personal Data in accordance with the LME Group Privacy Statement, which also sets out information about how data subjects may apply to receive copies of personal data held by LME Clear in respect of them, or otherwise exercise rights granted to them under GDPR (Rule 2.8.2(c) and 2.8.5). The terms used in Rule 2.8 (Data Protection) are to be defined by reference to the GDPR (See Rule 2.8.1(a)). LME Clear received external legal advice confirming that its Rules were GDPR compliant at the point it came into force and this is therefore a tidying-up exercise.
68. Updates have been made to Rule 10.14.1 and 10.14.9 to reflect the fact that LMEC's monthly reports use a 'snapshot' based on a single day to produce an estimate of Maximum Potential Non-Default Losses (which calculation also excludes any losses attributable to Securities Collateral provided by Members).



69. Updates have been made to Rule 1 (Definitions and Interpretation) and to Membership Procedure B:3.1(o) to reflect the fact that the Executive Risk Committee has been renamed the Clearing Risk Committee. A new definition of Ferrous Final Settlement Price has been included and the definition of “LMEmercury Materials” has been moved so that the definitions appear in alphabetical order, although the definition itself remains unchanged. New definitions of “Prompt Month” and “Settlement Business Day” have been added to align with the LME Rules. Definitions have also been included to define the terms “Exchange Traded Forward” and Exchange Traded Future” by reference to the products that those terms refer to in the Product Specifications in Annex 1.
70. Clearing Procedure Part D:3.19 has been amended to accurately reflect the basis on which Gold Collateral is taken.
71. The Collateral Timetables in Clearing Procedure Part D:4.14-4.16 have been updated to reflect current timelines.
72. The SPS Payment Deadlines in Clearing Procedure Part E:2.10 have been amended to reflect current timelines. The link to the Detailed Service Specification has also been updated.
73. Certain Prompt Date and prompt month descriptions in Annex 1 (Eligible Products) have been amended to be in line with the definition in the LME Rules.
74. The LME suspended its physically settled Steel Billet Contract on 10 April 2017. Updates have been made to Annex 1 (Eligible Products) to reflect this.
75. Updates have also been made to Default Procedure Part C:5.1 to reflect the current composition of the Default Management Committee, and references to the Chief Legal and Compliance Officer have been updated to refer to the General Counsel.

Benefits and unintended consequences

76. The LME and LME Clear, as applicable, acknowledge that there may be costs for Members in complying, or otherwise in connection, with the proposals set out in this Notice. However, the LME and LME Clear believe that the proposals are justified and in the interests of the wider Membership and LME / LME Clear ecosystem. Neither the LME nor LME Clear have identified any unintended consequences as a result of any of the proposals. However, the LME and LME Clear are interested in the views of respondents to the consultation in this regard.



Matt Chamberlain

Chief Executive – LME

Adrian Farnham

Chief Executive – LME Clear

cc: LME Board Directors
LME User Committee
All LME metal committees
LME Trading Committee
LME Ring Dealers Committee
LME Traded Options Committee
LME Warehousing Committee
LME Physical Market Committee

Appendix 1

Mapping Table – LME and LME Clear Rule Amendments

Consultation Proposal	Consultation Notice reference		LME Rule / Matching Rules reference	LME Clear Rule reference
	Section	Paragraph		
Strategic Pathway Initiatives				
Introduction of RIB membership – LME / LME Clear	A	14 – 19	Rulebook: Part 1 – Definitions; Part 2 – Regulations 1, 3A, 7, 9, 10.1, 12.6(j) and 15.4 and 15.5; Part 3 – Regulations 1.4, 1.8, 2.1, 2.5, 2.12, 2.13, 2.14, 3.1, 3.2.3, 3.3.1, 3.5, 3.7.1, 3.9.1 and 19, 19.3 Matching Rules: Paragraphs 2, 7, 8, 15, 16 (in relation to the inter-office venue only), 20, 21 (line 1 – cross-reference to Regulation 3.5.1(d)), 22, 23, 44, 45 and footnote 3	Rule 1 (Definitions), Clearing Procedure Part B para 3.2(c)
	N/a	App'x 3		
New Cash-Settled Futures – LME / LME Clear	A	20 – 23	Part 1 – Definitions; Part 3 – Regulations 1.7, 1.9, 2.1.2, 2.1.3, 3.7.1(c), 5.7.1 – 5.7.4, 5.8, 8.7, 9.1.1, 9.1.10 – 9.1.12, 9.7.1 – 9.7.3, 17.6 and 17.7; Part 4 – Regulations 1.2, 4.1 and 6.9 and 6.10; Part 6C – amendments relating to new Ferrous Futures, and Part 6D	Definitions, Clearing Procedure Part A para 6.4, Clearing Procedure Part B paras 4.6 and 4.14, Annex 1
LMEprecious Options – LME / LME Clear	A	24 – 28	Part 1 – Definitions; Part 2 – Regulations 3.3, 3.3, 3.4 and 7.3; Part 3 – Regulations 1.7, 2.1.3, 3.3.3(b), 5.8 - 8.12, 9.1.1 and 9.1.14, 9.8 and 9.9; Part 4, Regulation 1.2, 4.1, 5.12; Part 9 – Regulation 3.3.1 and 3.3.2; Part 13A and 13B	Rule 1 (Definitions), Rule 2.3.1(o) Rule 7.7.1(b), Clearing Procedure Part B:1(d), 6.1, 6.2, 6.11, Clearing Procedure Part C:4.2(a), Annex 1:1.2(b) and 3.3



Trial of electronic discovery of certain Closing Prices – LME	A	29 – 31	Part 3 – Regulations 5.7.7, 6.1 and 6.4	N/A
Miscellaneous LME Rulebook Amendments				
Dynamic contract Rules	B	33	Part 1 – Definitions; and Part 4 – Regulation 6.12 and 15	N/A
Arrangements for the prevention of disorderly trading and breaches of capacity limits	B	34	Part 3 – Regulation 1.5	N/A
Suspension of Member access to LME systems and facilities	B	35 – 36	Part 3 – Regulations 12.5 and 19.1(f)	N/A
New sanctions-related Rules	B	37 – 39	Part 1 – Definitions; Part 2 – Regulations 4.4 and 12.6(g), (l) and (m)	Definitions; Rule 6.15 (Cancellation of Contracts); Membership Procedure Part B, Rule 3.1 and 3.1A
Amendment to the LMEsword Regulations relating to LME powers in the context of a warehouse insolvency	B	40	Part 10 – Regulation 11.14	N/A
Governing law and jurisdiction and appointment of UK process agent	B	41 – 43	Part 1 – Definitions; Part 4 – Regulation 11	N/A
Delegation of Rulebook powers and	B	44	Part 1 – Definitions and Regulation 1.7	N/A



responsibilities by the Directors				
Changes to minimum Net Worth Requirements	B	45	N/A	N/A
Changes to Default Settlement Price definition for certain products	B	46	Part 1 – Definitions (“Default Settlement Price”, (g) and (h))	N/A
Optional use of “UNA” trades in relation to Give-Ups and removal of fee restriction	B	47 – 55	Matching Rules: Paragraphs 27 (cross-reference update), 46, 49, 50, 51, 52 and 54	N/A
Administrative amendments	N/A	32 (LME Rulebook) and 56 (Matching Rules)	Rulebook: Part 1 – Definitions (“the Company”); Part 2 – Regulation 14.76.3 – 14.76.5; Part 3 – Regulation 3.7.2 (reflecting LME Notice 17/218), 3.9.2, 11.9.4, 11.10.2, 11.10.3 and 21.8; Part 5A – Regulation 4.1, 5.1 and 5.3; Part 5B – Regulation 9.1, 9.4, 10.1 and 10.3; Part 5C – Regulation 13.1, 15.1 and 15.3; Part 6 – Regulation 3.3 (for each of the High Grade Primary Aluminium, Lead, Primary Nickel, Tin, Zinc, Cobalt and Molybdenum Concentrate Special Contract Rules), 3.4 (for each of the Aluminium Alloy and American Special Aluminium Alloy Special Contract Rules), 4.2 (Copper – Grade A) and 2 (Steel Billet); Part 6B – Regulation 1.3; Part 6C – Regulation 1.4, 1.5, 1.12 (all relevant Futures) and 1.6 (in relation to LME Steel Scrap only); Part 8 –	N/A



			<p>Regulation 2.1 and Regulation 16; Part 9 – Regulation 3.2; Part 12 – Regulation 2.7 (reflecting LME Notice 17/218); Part 13A – Regulation 1.2</p> <p>Matching Rules: Paragraphs 2, 4, 5, 6, 7, 8, 9, (deleted) 14, (new) 14, 15, 16, 17, 21, 26, 27, 29, 32 42, 56 and deletion of Appendix I and Appendix II</p>	
Correction of typographical errors	N/A	32	<p>Part 1 – Definitions (“Non-LME Platform Contract”); Part 2, Regulation 9 (“Category 4 Member”), 15.2.1 – 15.2.4 (de-capitalisations); Part 3 – Regulation 2.6.2(a), 2.9.2, and 9.7.7(c)(ii); Part 9 – Regulation 1.3</p>	N/A
Miscellaneous LME Clear Rule Amendments				
Auction Process updates to reflect implementation of new mandatory auction tool	C	58	N/A	Annex 8
Bridge Institutions	C	59 – 60	N/A	Rule 1 (Definitions); Rule 3.2.1 (On-going Membership Requirements); and Membership Procedure Part B:2.4, 3.2.1, 6.1 and 7.1 (On-going Reporting Requirements)
Removal of Margin methodology from Product Specifications	C	61	N/A	Annex 1, ‘Margin Model’ field in each Product Specification



Net Capital Requirements	C	62	N/A	Membership Procedure Part B:4.4 (Minimum Net Capital Requirements).
Capital notification triggers	C	63	N/A	Membership Procedure Part B:7.6
Membership Criteria (credit rating requirement)	C	64	N/A	Membership Procedure Part B:3.1
Postponed delivery (LMEprecious)	C	65	N/A	Rule 7.9.1(b)(iv)
Sanctions-related Rules	C	66	See "Sanctions-related Rules" above.	See "Sanctions-related Rules" above.
GDPR changes	C	67	N/A	Rule 2.8.1(a); 2.8.2(c) and 2.8.5
Reporting of Maximum Potential Non-Default Losses	C	68	N/A	Rule 10.14.1 and 10.14.9
Name change of Executive Risk Committee ("ERiC") to Clearing Risk Committee ("CleRiC")	C	69	N/A	Rule 1 (Definitions and Interpretation); Membership Procedure B:3.1(o)
Gold collateral	C	70	N/A	Clearing Procedure Part D:3.19 and 3.26
Collateral Timetables	C	71	N/A	Clearing Procedure Part D:4.14-4.16
SPS Payment Deadlines	C	72	N/A	Clearing Procedure Part E:2.10
Changes to certain Prompt Date and	C	73	N/A	Rule 1 (Rules and Interpretation); Annex 1 (Eligible Products)



prompt month terminology				
Suspension of Steel Billet contract	C	74	N/A	Annex 1 (Product Specifications)
Composition of Default Management Committee	C	75	N/A	Default Procedure Part C:5.1
Correction of typographical errors	N/A	57	N/A	Rule 1 – Definitions (definitions of “OTC Bullion Contract” and “Transaction”), Rule 2.20.2, Rule 5.3.4, Rule 6.11.4(d), Rule 7.5.3(b)(iii), Rule 7.9.3, Rule 10.10.0, 10.10.1, 10.10.6(b), Membership Procedure Part B:2.5, 2.7 and 2.8, Clearing Procedure Part B:3.1(b)(ii), 7.4 and 7.5, Default Procedure Part C:5.2
Administrative amendments	N/A	57	N/A	Rule 1 – Definitions (correction of cross-reference in the definition of “Failed Auction”; insertion of definitions of “Exchange Traded Forward”, “Exchange Traded Future” to clarify those categories, and of “Settlement Business Day” to align with the LME Rules); Rule 6.6.1 (correction of cross-reference), updates to tables in Clearing Procedure Part B:4.6 and 4.14(b), Clearing Procedure Part C:4.2(a) and (b), update to link in Clearing Procedure Part E:2.12, Clearing Procedure Part F:2.9(c) (correction of cross-reference), Settlement Finality Procedure paragraph 7.2 and Membership Procedure Part C:2.5 (replacement of reference to Chief Legal and Compliance Officer with reference to



				General Counsel), Annex 1 (replacement of "Business Day" with "LME Business Day"), updates to table in 1.2(a) and insertion of table at 1.5
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Appendix 2

Consultation Response Template

Consultation Proposal	LME and/or LME Clear Rule Reference	Suggested Amendment	Explanation/comment	Category (T/C/I) ¹
Section A – Strategic Pathway Initiatives				
Introduction of RIB membership				
New Cash-Settled Futures				
LMEprecious Options				
Trial of electronic discovery of certain Closing Prices				
Section B – Miscellaneous LME Rulebook and Matching Rule Amendments				
Section C – Miscellaneous LME Clear Rule Amendments				

¹ In this document, “T” means Typing Error, “C” means Clarification sought / required, “I” means Issue.



Appendix 3

Introduction of RIB membership

1. As set out in this Notice, the LME flagged the increasing importance of introducing brokers (as such term is defined in the Strategic Pathway) (“**IBs**”) to the LME ecosystem, in particular as the LME looks to develop its offering in new and growth products. The LME therefore intends to introduce a new category of “Registered Intermediating Broker” or “RIB” membership to formalise the basis on which these IBs may operate on the LME.
2. The LME’s proposal for RIBs will apply to IBs that arrange trades in the inter-office market between interested parties, without themselves becoming a party to the trade. IBs generally operate a low cost model that focuses on facilitating trades in niche and illiquid markets where they can add liquidity by finding matching buyers and sellers. Therefore, formalising the status of RIBs within the LME ecosystem (via a separate membership category) and providing more streamlined access for them to register trades is important to support liquidity in established products, and facilitate the development of liquidity in products that are new (e.g. Ferrous, LMEprecious, and proposed new products), relatively illiquid (e.g. cobalt, molybdenum) or complex (e.g. Traded Options).
3. The LME is aware that IBs currently operate within the LME ecosystem, on an informal basis. The introduction of RIB membership is not intended to be mandatory for these IBs. Rather, the LME will maintain flexibility for existing IB-type arrangements to continue. Similarly, it is not the LME’s intention, through the introduction of RIB membership, to undermine existing LME-issued guidance relating to IB activities on the LME’s Execution Venues. As set out in the Strategic Pathway, the term “introducing broker” refers in this context to a broad range of market participants, including (but not limited to) persons who introduce Clients to a Member (i.e. “pure” introducing brokers), an agent of an LME Member, an agent of the Client of an LME Member, inter-dealer brokers, and authorised representatives (as defined in FSMA) of Members. The LME intends, subject to the outcome of this consultation, to re-assess existing introducing broker-related guidance and may subsequently seek to re-issue consolidated guidance.
4. RIBs’ activities will be limited to arranging Agreed Trades (in the inter-office market – they will not be permitted to access other LME Execution Venues) and will not be permitted to enter into trades on the LME as principal. In arranging Agreed Trades, they will be acting as agent on behalf of the relevant Clients for whom they arrange trades. The term Client (as currently defined in the LME Rulebook) may include a non-Member or a Member that has instructed a RIB to broker a transaction in the inter-office market on its behalf, in its capacity as a Client. Clients will be required to submit a registration form to the LME setting out certain details, including identifying the RIB that they wish to appoint to arrange Agreed Trades for them, and the entity name of each Clearing Member through which they wish to clear such RIB-arranged Agreed Trades. Subsequently, each Clearing Member shall be required, via the Matching System RIB Screen, to authorise that Client/RIB combination in relation to the relevant Client Account.



5. In relation to contractual arrangements, the approach taken in the draft RIB amendments to the LME Rulebook is to require:

- a. RIBs to have contractual arrangements in place with the Clients on whose behalf they are authorised to arrange Agreed Trades with other Clients of the RIB; and
- b. Clearing Members to have contractual arrangements in place with their Clients, as required under the existing LME Rulebook.

Additionally, RIBs will be required under the LME Rulebook to establish that each Client has appointed a Clearing Member, and that appropriate arrangements are in place between the Client and the relevant Clearing Member, before the RIB may broker a trade to be cleared by that Clearing Member.

6. Unlike the existing inter-office trade flow set out in Regulation 2.5 of Part 3 of the LME Rulebook, RIB-brokered trades will not give rise to a Contingent Agreement to Trade. A Contingent Agreement to Trade is an agreement between two parties to an Agreed Trade made in the inter-office market which, broadly, obligates the parties to the Agreed Trade to submit particulars of the Agreed Trade to the Matching System within specified timeframes. Contingent Agreements to Trade arise at the same time as the Agreed Trades to which they relate. In relation to RIB-brokered trades, the LME proposes to replace the concept of a Contingent Agreement to Trade with a Rule-based obligation on the RIB to input the particulars of the Agreed Trade within prescribed timeframes on behalf of both Clients.

7. The LME proposes to introduce a two-tiered membership structure that will in turn determine which products RIBs in that tier are permitted to broker. The proposed product tiers and associated key RIB membership criteria are set out below.

Products available	Tier 1 RIB		Tier 2 RIB
	<u>Tier 1 products</u>	<u>Tier 2 products</u>	<u>Tier 2 products only</u>
	Aluminium Copper Zinc Lead Nickel Tin	and Ferrous (Steel Scrap and Steel Rebar) LMEprecious (Gold and Silver) Traded Options Cobalt Molybdenum Aluminium alloy NASAAC New products	Ferrous (Steel Scrap and Steel Rebar) LMEprecious (Gold and Silver) Traded Options (including Delta Hedges, as detailed in paragraph 8 below) Cobalt Molybdenum Aluminium alloy NASAAC New products



Membership criteria		
	<ul style="list-style-type: none">• 2,500 B-shares• Annual fee USD 75,000	<ul style="list-style-type: none">• No B-shares• Annual fee USD 5,000²

8. The LME notes that in the ordinary course, a Tier 2 RIB will not be permitted to arrange Agreed Trades in RIB Tier 1 Products. However, the LME intends to provide functionality to allow Tier 2 RIBs to arrange “delta hedges” whereby a Tier 2 RIB that arranges an Agreed Trade in a Traded Option which has a Future that is classified as a RIB Tier 1 Product as its underlying, will be permitted to arrange an Agreed Trade in the corresponding Future in order to make the Traded Option transaction delta neutral. Tier 2 RIBs’ access to RIB Tier 1 Products will be restricted through the Matching System RIB Screen and will only be available when the details of an Agreed Trade relating to a relevant Traded Option have been entered. For clarification, this restriction means that Tier 2 RIBs will not be permitted to make any adjustments to existing delta hedges.
9. As signalled in the Strategic Pathway (section 7.3), the LME believes that IBs executing the core base metals suite (i.e. Tier 1 RIBs) should be subject to a B-share requirement that is commensurate with the requirements for other Membership categories. It is therefore proposed that a Tier 1 RIB’s shareholding requirement and annual fees are commensurate with Category 4 membership. Tier 2 RIBs, on the other hand, will not be subject to a B-share requirement and their annual fee will be significantly lower. The B-share requirements and annual fees may be prescribed from time to time by Notice.
10. In addition to these criteria, RIBs will be subject to the Common Eligibility Criteria set out in Regulation 4 of Part 2 and the regulatory requirements set out in Regulation 7 of Part 2, in much the same way as Trading Members of the LME.
11. RIBs will be responsible for registering Agreed Trades in the Matching System, LMEsmart, within the timeframes stipulated in the draft LME Rulebook amendments, and Matching Rules amendments. This will be facilitated through a purpose-built graphical user interface, the Matching System RIB Screen that forms part of LMEsmart, to which RIBs will be given access. Having a dedicated interface is designed to provide such benefits as increased operational efficiency in relation to the Agreed Trade registration process, and maintaining anonymity between Clients (as only the RIB arranging a particular Agreed Trade will know the identities of all of the parties – Clients and Clearing Members – to an Agreed Trade). The Clearing Members in whose names these trades are registered will also have access to a dedicated trade management screen (which forms part of the Matching System RIB Screen) which will allow them to: (i) approve each RIB to broker trades in respect of the Clearing Member’s relevant Client (approval is granted for each relevant RIB / Client / Client Account combination); and (ii) approve (or, where applicable, reject) each trade half that is registered

² Subject to regulatory approval, it is proposed that this fee will be waived for the first year following launch of RIB membership.



by an approved RIB. Clearing Members will not see the identity of their counterparty Clearing Member in the Matching System RIB Screen – i.e. it will be masked.

12. The LME shall have the right to re-categorise Tier 1 and Tier 2 Products from time to time by way of Notice. It is envisaged that a proposal to change the categorisation of a RIB Product would be notified to the market in advance of taking effect. The broad factors that the LME may take into consideration in proposing a re-categorisation are set out in the draft Rules.
13. As part of the admittance process to become a RIB Member, prospective RIBs will be required to enter into an Exchange Membership Agreement with the LME, through which they will be bound to the LME Rulebook. Such Rules will include, amongst other things, Regulation 13 (*Investigation*), 14 (*Discipline*), 15 (*Disqualification & Expulsion*), 16 (*Forfeiture of Rights on Cessation of Membership*), 17 (*Disputes between Members*) and 21 (*Confidentiality*) of Part 2.
14. It is also proposed that existing Members holding Category 1 to 5 Membership, or any category of LMEprecious membership, may apply to become RIBs in parallel with their current category of membership. In doing so, such Members will be required (amongst other things) to meet the applicable RIB membership criteria and to comply with the LME Rulebook as applicable to each category of membership held. The LME notes in particular that:
 - a. where a Member entity wishes, in addition to its existing membership, to become a RIB, it will be required to pay annual fees applicable to both categories of membership³; and
 - b. where a Member's existing category of membership and desired RIB membership are both subject to a B-share requirement, the requirement shall not be cumulative. However, in the event that an Affiliate of a Member applies to take up RIB membership that is subject to a B-share requirement, that B-share requirement will apply separately to the Affiliate entity.
15. The LME Rulebook will need to be amended to accommodate the structure described in paragraphs 1 to 14 of this Appendix 3. The changes relate to the following parts of the LME Rulebook:
 - a. Part 1 (*Definitions and General Rules*) to introduce new defined terms and amend existing defined terms as applicable;
 - b. Part 2 (*Membership, Enforcement and Discipline*) to introduce a new Regulation 3A specific to RIB Members and associated amendments throughout Part 2, including in relation to Regulation 7 (*Requirements of the Financial Services and Markets Act 2000*); and

³ Membership and annual fees for existing categories of membership are set out in the LME Group Schedule of Fees and Charges, accessible at <https://www.lme.com/Trading/Access-the-market/Fees>.



- c. Part 3 (*Trading Regulations*) to set out the obligations that apply to RIBs when arranging Agreed Trades in the inter-office market, and to Members where they elect to have trades arranged by a RIB, or where they act as Clearing Member for a Client in relation to a particular Agreed Trade, and to reflect amend Regulation 19 (*Liability*) to reflect the introduction of the Matching System RIB Screen functionality.
 16. The Matching Rules will also need to be amended to include certain RIB-related amendments.
 17. Additionally, consequential amendments will be required to the LME Clear Rules and Procedures. This includes:
 - a. minor amendments to the definitions in Rule 1 of the LME Clear Rules of “LME Inter-Office Market” and “Transaction” to include appropriate references to RIB services;
 - b. adding a new definition of “Registered Intermediating Broker” into Rule 1;
 - c. amending Rule 5.3.1(a) to ensure that a Member may not permit a RIB to submit a Transaction that a Member would be prohibited from submitting under this Rule; and
 - d. amendments to 3.2 of Part B (*Transaction and Position Management*) to incorporate RIB-arranged Transactions into the existing LME Inter-Office Market framework.
- However, given that these changes are minor and administrative in nature, and required only to reflect certain aspects of the proposed LME Rulebook amendments, LME Clear has decided, in accordance with LME Clear Rule 2.2.6(b), that it is not necessary to consult on them. Consequently, they are not set out in this consultation.
18. The LME does not propose to introduce new fees in relation to RIB-brokered trades. Rather, Contracts resulting from Agreed Trades arranged by RIBs will be subject to the existing transaction and clearing fees for the inter-office market, as set out in the LME Group Schedule of Fees and Charges.
 19. The LME will make available technical systems specifications and RIB onboarding documentation in due course.
 20. As part of a later development phase, the LME will also consider the introduction of in-line risk controls within the RIB trade flow, which will in turn mitigate the need for Clearing Members to accept individual trade halves manually.