

To: All Members and other interested parties

Ref: 19/365 (LME Notice)
19/050 (LMEC Circular)

Classification: Trading Fees

Date: 12 November 2019

Subject: **INTRODUCTION OF LME PRECIOUS LIQUIDITY PROVIDER PROGRAMME**

Summary

1. This Notice announces the launch of the tender process for a new liquidity provider programme (the “**LP Programme**”) trading in the LME Gold and LME Silver contracts (the “**LMEprecious Contracts**”) for price provision between 8am – 6.30pm (London time).

Defined terms

2. 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

3. The London Metal Exchange (the “**LME**” or the “**Exchange**”) invites market participants to submit proposals for the LP Programme. Members or their Clients/Indirect Clients are eligible to become liquidity providers. Interested parties are requested to submit their proposals and will be selected in accordance with the process set out in this Notice. The LME will select designated liquidity providers promptly after receiving proposals for the LP Programme.
4. It is expected that the Exchange will appoint two liquidity providers 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.
5. Subject to regulatory non-objection and internal review, the LP Programme will commence on 2 December 2019 and terminate on 30 November 2020.
6. The selected liquidity providers for the LP Programme will be eligible for trading and clearing fee rebates and stipends towards operational costs for the price provision activity. Further details of how the rebates and stipends will be paid are set out in the Specification.



7. The LP Programme shall be governed by the General Terms of the LME incentive programmes. The application process for participating in the LP Programme is detailed in this Notice and the Specification attached at Annex 1 sets out the terms of the LP Programme.
8. For the avoidance of doubt, participation in the LP Programme 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 Programme 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, pursuant to Notice 17/389), will not be required to execute the MiFID II Market Making Agreement simply because of participation in the LP Programme in and of itself.

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

9. Interested parties are invited to submit their liquidity provision proposals to the LME Precious Metals team at lmeprecious@lme.com no later than 25 November 2019 in order to be considered by the Exchange for the initial shortlist of new liquidity providers. The interested parties applying for the LP Programme must be ready to commence liquidity provision on 2 December 2019.

LMEprecious liquidity provision parameters

10. An interested party must provide the following parameters (the “LP Parameters”):
 - (i) the contract months to be quoted;
 - (ii) the maximum bid-offer spread size;
 - (iii) the minimum lot size for each bid and offer; and
 - (iv) the percentage of trading hours it will be able to provide two-way symmetrical continuous quotes at the specified maximum bid-offer spread and minimum lot size.
11. Interested parties must also submit, as part of their application, additional information related to:
 - (i) the operational costs that are expected to be incurred in performing the liquidity provision activities in support of the stipend amount for which they are applying (such operational costs are likely to include the costs of staff responsible for liquidity provision, IT software and IT support);
 - (ii) knowledge of the precious metals industry; and



(iii) previous trading activity in derivative contracts.

12. 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 a Member is applying on behalf of its Client or Indirect Client, the Member must also demonstrate that it has the ability (including internal technical systems, controls and infrastructure) to support the relevant LP Parameters.
13. Interested parties are invited to review the Exchange's preferred LP Parameters set out in the Specification in Appendix 1 ("**LME LP Parameters**") and are advised to either exceed or match these parameters to the extent possible.

Shortlisting selection criteria

14. 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

15. The Exchange reserves the right to review and revise the LP Programme. The Exchange also reserves the right to 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

16. 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 14 and will send the shortlisted Members (or in the case of Clients / Indirect Clients, their nominated Members) an application form to complete. The application form for the LP Programme will also be made available on the LME website or can be requested from the Precious Metals team at Imeprecious@lme.com.
17. The Member shall complete the application form for the LP Programme and provide all relevant information which the Exchange shall require in respect of the Member liquidity provider or the relevant Client / Indirect 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.

18. Any interested party which is not a Member of the LME must submit their proposals through an LME Member.
19. The decision of the Exchange will be made according to the selection criteria outlined in paragraph 14 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.
20. The final selection of the liquidity providers for the LP Programme will be at the absolute discretion of the Exchange and the Exchange retains the right to select or decline any Member or Client / Indirect Client into the programmes.
21. The Exchange will notify the market by way of Notice once the successful applicants have been selected for the LP Programme. 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.

Further requirements

22. Members must have the ability to add multiple FIX tag 58 client codes to their pre-trade risk management system.
23. 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.

Questions

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

Kate Smith
Head of Precious Metals

cc: Board directors



Appendix 1

Specification

1. This programme is governed by the General Terms of the LME incentive programmes. This document can be obtained on the LME website or from the Sales team at sales@lme.com.
2. Capitalised terms not otherwise defined in this Specification shall have the meaning ascribed to them in the General Terms of the LME incentive programmes.

Eligibility Criteria

3. To be eligible for the LP Programme, a Participant must:
 - i. be a Member, Client or Indirect Client;
 - ii. at the absolute discretion of the LME, have the experience, technical and operational ability to meet the LP Obligations; and
 - iii. be selected by the LME to participate in the LP Programme following the application process set out in this Notice 19/365.

Eligible Contracts

4. LME Gold and LME Silver (“**LMEprecious Contracts**”).

LP Obligations

5. The Participants shall comply with the LP Parameters agreed with the LME following the application process set out in this Notice 19/365 (“**LP Obligations**”). For information purposes only, the anticipated obligations for Participants are as follows:

Programme	LME Gold and LME Silver
Prompt months to be quoted	Spot
Percentage of 8am-6.30pm trading 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
Minimum lot size on each side	The minimum number of lots required to be quoted on each side will be 5 lots



Incentives for the LP Programme

Fee Rebates

6. Participants will be eligible for trading and clearing fee rebates of LMEselect trades in LMEprecious Contracts during the 8am-6.30pm trading period for passive volume where they have met at least 50% of their LP Obligations on an aggregate basis across the LMEprecious Contracts. In order to determine whether a Participant has met 50% of its LP Obligations for these purposes, the LME will determine the percentage of its LP Obligations that the Participant has met in relation to the LMEprecious Contracts, then calculate the arithmetic average of these figures.
7. Participants shall also receive a monthly stipend of US\$15,000 subject to meeting the conditions of their agreed LP Obligations, towards technology and personnel costs for the programme. If the Participant does not meet this requirement then each stipend would be reduced proportionately, subject to a minimum requirement of 50% of the time specified in its LP Obligations. For the avoidance of doubt, no stipend would be paid to Participants quoting for less than 50% of the time specified in their LP Obligations (as calculated over the course of one calendar month).
8. Please see the worked examples set out in Appendix 2, which are non-exhaustive and provided for illustrative purposes only.

Payment process

9. The trade identifiers for the monitoring of performance under the LP Programme will be the specific registered combination of:
 - Fix Tag 58
 - Fix Key
 - Fix Tag 109
10. The Exchange will not calculate rebates in respect of Client / Indirect Client Participants who trade through multiple Members. The application form will require that each Client / Indirect Client Participant identifies a single Member through which it will undertake its LP Obligations for the purposes of the LP Programme.
11. Rebates and stipend payments (where applicable) will be credited to Members two months in arrears for the LP Programme. For example, liquidity provider activities conducted in January will be calculated in February and credited in March.



12. Where a single Category 1 Member or Category 2 Member has multiple liquidity provider Clients / Indirect Clients, the LME will provide the Member with a breakdown of the relevant rebates and stipend, itemised per FIX Tag 58 liquidity provider keys.

Term and termination

13. Subject to regulatory non-objection and internal review, the LP Programmes will commence on 2 December 2019 and terminate on 30 November 2020.



Appendix 2

Worked Examples of Rebate Payments

Firm A's obligations		90% of trading hours Gold and Silver 3 tick wide
Stipend available	\$	15,000.00

Process:
Maximum stipend x adjustment factor

Scenario 1

LME measures Firm A is present for 90% of time

Adjustment factor: $90\% / 90\% = 100\%$

$\$15,000 \times 100\% =$ \$ 15,000.00

Scenario 2

LME measures Firm A is present for 75% of time

Adjustment factor: $75\% / 90\% = 83.3\%$

$\$15,000 \times 83.3\% =$ \$ 12,495.00

Scenario 3

LME measures Firm A is present for 60% of time

Adjustment factor: $60\% / 90\% = 66.6\%$

$\$15,000 \times 66.6\% =$ \$ 9,900.00

Scenario 4

LME measures Firm A is present for 40% of time

Minimum requirement not met, nil stipend paid