

To: All Members

Ref: 20/187

Classification: Trading Fees

Date: 28 July 2020

Subject: **LME RING TRADING UPDATE – COVID-19**

Summary

1. This Notice (i) outlines the criteria by which the LME would make any decision with regard to the reopening of the Ring, and (ii) introduces an incentive programme for Category 1 (Ring dealing) members in light of the extraordinary circumstances caused by the COVID-19 pandemic.

Background

2. As indicated in Notice 20/067, Ring trading was temporarily suspended with effect from Monday 23 March, with LME pricing being conducted electronically until conditions normalise in respect of COVID-19. This decision took into account relevant advice of the UK Government, and was taken to protect the health and safety of LME staff and the staff of Category 1 members, as well as to prevent the spread of COVID-19.
3. Since this time the UK Government advice has continued to prioritise social distancing as a key method for avoiding the spread of infection. Notwithstanding the easing of social distancing rules from 4 July 2020 in respect of the “1m+” alternative to the 2 metre rule, the position of the LME remains not to reopen the Ring until such a time as it would be consistent with the Government’s social distancing guidance. The LME continues to engage with its Category 1 members as guidelines evolve and remains committed to reopening the Ring once it is safe to do so.

Risk mitigation

4. The LME has undertaken detailed assessments of the latest government guidance for offices and contact centres, particularly with regard to the extra risk mitigations needed to supplement the reduction of social distancing from 2m to 1m. These measures are as follows:



- (a) Further increasing the frequency of hand washing and surface cleaning.
 - (b) Keeping the activity time involved as short as possible.
 - (c) Using screens or barriers to separate people from each other.
 - (d) Using back to back or side to side working (rather than face to face) whenever possible.
 - (e) Reducing the number of people each person has contact with by using 'fixed teams or partnering' (so each person works with only a few others).
5. Furthermore, the Government guidance specifically instructs offices and contact centres to “ensure that steps are taken to avoid people needing to unduly raise their voices to each other”.
6. Given the nature of the Ring, which involves face-to-face contact with more than “a few others” over prolonged periods and during which time voices are regularly raised, it is the LME’s belief that Ring trading in its current form would not meet these risk mitigation guidelines.
7. The LME has considered whether it would be possible to modify some aspects of Ring trading in order to meet these guidelines, such as requiring Category 1 members to operate split teams, and erecting screens to separate teams. However, given the necessary proximity of staff within the Ring environment, the limited space and access routes around the Ring, and the practical realities of Ring trading, the LME believes such modifications could not feasibly be put in place without impacting the effectiveness of Ring trading and price discovery.

Criteria for reopening the Ring

8. The LME acknowledges that the unavoidable lack of certainty regarding the potential timelines for reopening the Ring presents difficulties for Category 1 members in particular. However, there is broad consensus among the User Committee and Category 1 members that the provision of a set of criteria for the return to Ring trading would be helpful for forward planning purposes. The LME has therefore laid out a considered set of criteria below.
9. For the LME to prepare for the reopening of the Ring, it would require either:
- (a) an end (or significant further relaxation) to social distancing per UK Government guidance – which likely would itself be driven by a significant reduction in virus transmission; or
 - (b) a widely available vaccine; or



(c) some other (as yet unknown) technological solution which would make renewed Ring trading safe.

10. Additionally, the LME would require that a meaningful number of Category 1 members are willing to return, and those members would need to collectively represent more than 60% of the total 2019 Ring-traded volume. This criterion is required in order to ensure that price discovery is based on meaningful volume, so that the prices continue to be credible and robust.
11. When assessing these criteria the LME will also be cognisant that an earlier return to the Ring only for another suspension to be put in place (if circumstances change) could be particularly disruptive to stakeholders. The LME will therefore need to assess these criteria in context with the evolving situation.

Fee impact and incentive programme

12. The LME is grateful to its Category 1 members for their cooperation during the transition from Ring pricing to electronic pricing and for their efforts in providing continued liquidity to the pricing process.
13. The LME acknowledges that the suspension of Ring trading has financially impacted Category 1 members due to the fact that they are no longer able to benefit from the lower fees applicable to Ring trading, while still incurring costs for maintaining the Ring infrastructure. Accordingly, the LME is introducing a Ring Suspension Rebate Programme for Category 1 members, funded by a proportion of its collected enforcement proceeds. While this incentive programme is intended to provide some recompense to Category 1 members in response to the current exceptional measures that are being taken to prevent the spread of COVID-19, it should not be construed in any way as precedential in respect of future fee arrangements.
14. The incentive programme rebates Category 1 member trading fees for LMEselect trades. The rebate per contract brings LMEselect fees down to Ring fee levels. The available rebate per month, per trade category is capped per member. These rebate caps have been determined such that the available monthly rebates are linked to the historical benefits received by the most active Category 1 members, as a result of lower Ring fees. All Category 1 members will have access to the full caps, regardless of their historical Ring volumes. Further details of this incentive programme can be found in Appendix A.
15. The programme will be effective from 1 August 2020 until 31 December 2020, or until the Ring reopens, if sooner. The LME has taken into account the overall impact of COVID-19 on Category 1 members – noting both the exceptionally high volumes transacted in the first quarter as well as the significantly lower volumes



seen from April to July. The LME believes that on balance, therefore, given that Category 1 members have also incurred costs for maintaining the Ring infrastructure during the suspension, it is appropriate that the incentive programme comes into effect from the start of August. In the unfortunate event that the Ring is still suspended at the end of 2020, the LME will consider the appropriate measures that might be required in its 2021 fee schedule, should the exceptional circumstances persist.

16. The LME considers the role of Category 1 members to be crucial in providing continued liquidity to the pricing process and therefore the participation of Category 1 members in the pricing process is to the benefit of the membership as a whole. Accordingly, the LME has determined it is appropriate, in light of the suspension of Ring trading and the financial impact of this for Category 1 members referred to above, to fund the rebate programme using a proportion of the enforcement proceeds it has collected. In coming to this determination, the LME has had regard to the criteria set out in its internal policy on the application of enforcement proceeds and Decision Notice 19/057. In particular, the LME has assessed: (i) whether the proposed incentive programme is for the primary benefit of members and/or other users of its facilities; and (ii) the likely impact on different categories of user. The LME has also assessed the incentive programme in light of the benefit to members and / or other users of the LME's facilities, with a view to ensuring that any benefit to the LME that flows from the use of enforcement proceeds in this way, is ancillary to the primary benefit received by the LME's members and other users of its facilities as a whole.

Matthew Chamberlain
CEO

cc: Board directors
All Committees



APPENDIX A: INCENTIVE PROGRAMME SPECIFICATIONS

Ring Suspension Rebate Programme

1. This programme is governed by the Incentive Programme General Terms, which can be found on the LME [website](#).
2. Capitalised terms not otherwise defined in this Specification document shall have the meanings ascribed to them in the Incentive Programme General Terms.

Eligibility criteria

3. All Category 1 Members are Eligible for the Ring Suspension Rebate Programme (“RSRP”), and will be enrolled automatically.
4. To the extent that a Member, or any Affiliate of the Member, has been issued with, or has agreed to pay the LME (as applicable) fines or settlement amounts exceeding US\$ 250,000 but less than US\$ 500,000, such Member shall only be entitled to benefit from the Programmes to the extent set out in the table below:¹

| Aggregate Member fine | Percentage of eligible rebate paid |
|-----------------------------------|------------------------------------|
| ≤ US\$ 250,000 | 100% |
| > US\$ 250,000 but ≤ US\$ 300,000 | 75% |
| > US\$ 300,000 but ≤ US\$ 400,000 | 50% |
| > US\$ 400,000 but ≤ US\$ 500,000 | 25% |
| > US\$ 500,000 | 0% |

Eligible contracts

5. Outright, short-dated carry, medium-dated carry, and all other carry Exchange Contracts traded on LMEselect in physically settled base metals futures (“**Eligible Contracts**”).²

¹ To the extent that an exchange rate calculation is required to determine whether a threshold has been reached, the LME shall use the HM Revenue & Customs monthly exchange rate applicable as at the date the relevant fine was issued (or, in the case of a settlement, on the date that the relevant settlement agreement was executed).

² As defined in the LME fee schedule.



Rebate calculation

6. Rebates shall be calculated by category from the following table, capped per category per month for each Member.

| Category | Rebate per lot per leg per side | Cap per month |
|--------------------|---------------------------------|---------------|
| Short-dated carry | US\$ 0.11 | US\$ 5,000 |
| Medium-dated carry | US\$ 0.22 | US\$ 20,000 |
| All other carries | US\$ 0.43 | US\$ 20,000 |
| Outright trades | US\$ 0.43 | US\$ 5,000 |

Duration of incentive programme

7. The RSRP shall commence on 01 August 2020.
8. The RSRP shall finish on 31 December 2020 or when the Ring re-opens for trading, whichever is sooner.
9. The LME may in its absolute discretion amend the RSRP programme by way of a Member Notice at any time.

Worked example

10. Please see an example below of the rebate payable to a Member based on hypothetical volumes.

| | LMEselect Exchange Contract volume August 2020 | Rebate per lot | Calculated rebate | Monthly cap | Rebate value |
|----------------------------|--|----------------|-------------------|-------------|--------------------|
| Short-dated carry | 5,000 | US\$ 0.11 | US\$ 550 | US\$ 5,000 | US\$ 550 |
| Medium-dated carry | 50,000 | US\$ 0.22 | US\$ 11,000 | US\$ 20,000 | US\$ 11,000 |
| Other carry | 20,000 | US\$ 0.43 | US\$ 8,600 | US\$ 20,000 | US\$ 8,600 |
| Outright | 15,000 | US\$ 0.43 | US\$ 6,450 | US\$ 5,000 | US\$ 5,000 |
| August 2020 rebate: | | | | | US\$ 25,150 |

11. For further information, please contact the sales team at Sales@LME.com