

To: All Members

Ref: 20/242

Classification: Trading General

Date: 06 November 2020

Subject: **UPDATED BUSINESS CONTINUITY PLANS FOR LME BASE METAL FUTURES, ALUMINIUM PREMIUM CONTRACTS AND CASH-SETTLED FUTURES**

Summary

1. This Notice restates and updates the Policy for establishing:
 - (a) the Official and Closing Prices on LMEselect in the event the Ring is not available or disrupted; and
 - (b) the Cash-Settled Future Daily Settlement Price for a number of Cash-Settled Futures in the event that trading is disrupted on LMEselect during the relevant Pricing Period (“Policy”).

Defined Terms

2. Terms not otherwise defined in this Notice shall have the meaning ascribed to them in the rules and regulations of the LME (“Rulebook”) or the Benchmark Administration – Definitions document (“Definitions”) available on the LME’s BMR Website as applicable, and in each case as amended from time to time.

Background

3. The Policy was originally put in place to ensure that the LME was able to determine the Official and Closing Prices for base Metal Futures, Aluminium Premium Contracts and the Cash-Settled Future Daily Settlement Prices in the event the Ring was unavailable, or trading, either in the Ring or on LMEselect, was disrupted.
4. The Policy has now been updated as part of a periodic review and following its application for an extended period of time during COVID-19. The LME is grateful for the continued support and cooperation of its Members and the wider market throughout this period. The Policy will continue to support the LME’s temporary move to electronic pricing which commenced on Monday 23 March 2020, as per



LME Notice 20/073. This Notice supersedes and replaces LME Notice 20/069, dated 19 March 2020.

5. The changes to the Policy (as set out in the version of the Policy in Appendix 1 to this Notice) are not material. They are being made to provide further clarification on the methodology currently used for the determination of the Official Prices and Closing Prices, including the use of expert judgement by the Quotations Committee, and are not changes to the methodology itself. The LME continues to be in dialogue with the market regarding this Policy and reserves the right to make further changes in due course.
6. Market users are reminded that, during any period of electronic pricing, there may be consequent changes to market practices (particularly in respect of the guaranteeing of Closing Prices).

Changes

7. The Policy is as amended and restated in Appendix 1 of this Notice. As of **Tuesday 1st December 2020**, the appended version of the Policy shall replace any and all previous versions of the Policy.

General

8. If Members or other interested parties have any questions or requests for further clarification regarding the Policy, or would like to see a redline showing the changes against the version of the Policy contained in Notice 20/069 dated 19 March 2020, please contact Trading Operations at tradingoperations@lme.com.

James Macdonald
Head of Trading Operations

cc: Board directors
Ring Dealers Committee



APPENDIX 1

POLICY FOR ESTABLISHING (A) OFFICIAL AND CLOSING PRICES ON LMESELECT IN THE EVENT THAT THE RING IS NOT AVAILABLE OR TRADING IS DISRUPTED AND (B) CASH-SETTLED FUTURE DAILY SETTLEMENT PRICE FOR CASH-SETTLED FUTURES IN THE EVENT THAT TRADING ON LMESELECT IS DISRUPTED DURING THE RELEVANT VWAP WINDOW

Defined Terms

1. Capitalised terms not otherwise defined herein shall have the meaning ascribed to them in the rules and regulations of the LME (“Rulebook”) or the Benchmark Administration – Definitions document (“Definitions”) available on the LME’s BMR Website as applicable, and in each case as amended from time to time.

Policy

2. To ensure continuity in the publication of the LME’s prices in the event that the Ring is not available or trading is disrupted by an emergency:
 - (a) the Official and Closing Prices will be established by the Quotations Committee basis LMEselect activity, in accordance with the provisions set out in Paragraphs 3 to 14 (inclusive); and
 - (b) the Cash-Settled Future Daily Settlement Price for Cash-Settled Futures shall be determined in accordance with the provisions in Paragraph 18.

Establishment of Official and Closing Prices

3. In the event that the Ring is not available, or Ring activity is disrupted by an emergency situation, the Official Prices and Closing Prices for each base Metal Future and each Aluminium Premium Contract will still be established at the prescribed times. Where this is not possible, or if Ring trading is disrupted while the Ring is in operation, the Exchange will communicate the revised times for determining the Official Price and/or Closing Prices for any relevant Metal Future or Aluminium Premium Contract as soon as is practically possible. Any Official Price or Closing Price established in the Ring before the Exchange’s business continuity procedures (“BCP”) are invoked may stand, subject to the discretion of the Quotations Committee.

Arrangements for key Prompt Dates

4. The following Official Prices and Closing Prices will be determined using a volume weighted average price (“VWAP”) from transactions on LMEselect over a 5



minute pricing period (“Pricing Period”), where the minimum volume requirement threshold (“MVR Threshold”) is met:

i) Cash and 3 months for Officials and 3 months for Closing Prices for Metal Futures; and

ii) Month 1 for Aluminium Premium Contracts.

The VWAPs will then be rounded up or down, as applicable, in accordance with the protocol set out on the LME’s website from time to time. For information on the determination of all other Prompt Dates (for which Official Prices and Closing Prices are published) please refer to Paragraphs 9 to 14.

5. For the Official Prices referred to in Paragraph 4, the Pricing Period will be the time that would have constituted the 5 minutes of the second Ring of the first session for the relevant metal as set out on the LME’s website from time to time. For the Closing Prices referred to in Paragraph 4, the Pricing Period will be the time that would have constituted the last 5 minutes of the kerb in the second session for the relevant metal as set out on the LME’s website from time to time.
6. The MVR Thresholds are set out on the LME’s website and are subject to change from time to time following periodic review of market activity, and consultation where required. All LMEselect trades in outright for the relevant Prompt Date for the relevant Metal Future or Aluminium Premium Contract that occur during the relevant Pricing Period will be considered for the purposes of the MVR Threshold and VWAP calculation, unless the Exchange excludes any trade it deems erroneous at the Exchange’s absolute discretion.
7. The Official and Closing Prices determined under this Policy for each metal will only be one price and not a two-way bid/offer price (as would typically be the case). However, this single price will be disseminated on the LME market data feed as both the bid and the offer price – and, for the purposes of usage of the data (in physical supply contracts or otherwise), the LME considers that the single price may be utilised as both the bid and offer price.
8. If the relevant MVR Threshold is not reached, the Quotations Committee shall determine the Official Price and Closing Price for the affected Prompt Date using the following pricing waterfall:
 - a) it shall be the last traded price on LMEselect during the Pricing Period if the last traded price is within, or at, the bid/offer on the close of the relevant Pricing Period;
 - b) if the last traded price on LMEselect during the Pricing Period is outside of the bid/offer on the close of the Pricing Period, then the bid/offer closest to the last traded price will be used;



- c) if the relevant Metal Future or Aluminium Premium Contract is untraded on LMEselect during the Pricing Period, but has traded on LMEselect prior to the Pricing Period and/or where a bid/offer is available at the close of the Pricing Period, the price will be determined using the last trade (or last valuation where untraded) in conjunction with the available bid/offer information to determine the price;
- d) if the relevant Metal Future or Aluminium Premium Contract is untraded on LMEselect during or prior to the Pricing Period and there is no bid and/or offer available on the close of the Pricing Period, the price will be determined using available spread information and the last valuation.

The Official Price and Closing Price will then be rounded up or down, as applicable, in accordance with the protocol set out on the LME's website from time to time.

Where:

- a) the LME does not have access to sufficient input data necessary to determine the Official Price and Closing Price; or
- b) a linear approach to the pricing waterfall would result in an inaccurate price (in the Quotation Committee's expert judgement),

the LME may set the Official Prices and Closing Prices at a price at its absolute discretion, using expert judgement which includes, but not limited to, referencing data sources and available spread trading information, including but not limited to inter-office activity and prevailing market prices. In these circumstances, the considerations in Paragraphs 10 to 14 may apply.

Arrangements for all other Prompt Dates

- 9. The establishment of prices for all other Prompt Dates (i.e. all outright Prompt Dates not listed in Paragraph 4(i) and (ii) above) that are published as part of the Official Prices and Closing Prices will not utilise VWAPs. Rather, they will be determined using the 3 Month outright price established on the basis of the pricing waterfall set out in Paragraph 8, in conjunction with any available spread information. In establishing the spread information, the waterfall set out in Paragraph 8 will be applied with reference to spread orders and transactions from LMEselect or using expert judgement where the waterfall is not deemed appropriate. Where the Quotations Committee use expert judgement in the determination of Official Prices and Closing Prices for the Prompt Dates addressed by this Paragraph 9, the considerations in Paragraphs 10 to 14 may apply.



Expert judgement

10. The most active months will form the basis for the forward prices. For the purposes of the determination of the forward months for the Official Prices and Closing Prices, the Quotations Committee will give regard to all spread trading activity that has occurred throughout the day in that metal. However, it will give particular regard to trading activity and orders placed towards and on the close, particularly where significant volumes have traded and/or where there is established order depth, in the Quotation Committee's view, to represent a fair reflection of prevailing market prices.
11. Spread orders placed, and transactions concluded, up to the close of each respective Pricing Period for outright (i.e. Cash and 3 Months), will be taken into account for the purpose of determining the forward months for the Official Prices and Closing Prices. Spread trading activity (including orders and concluded transactions) will only be taken into account for the determination of these forward month prices where it occurs on or before the end of the Pricing Period for outright (see Paragraph 5 above).
12. Where traded or quoted prices do not equate with each other across the forward months resulting in conflicting spreads, the Quotations Committee may use expert judgement to adjust the price curve. Such adjustments will be made having taken into account all relevant trading activity including, but not limited to:
 - volume traded with particular regard to activity towards the close of each respective Pricing Period for outright;
 - volume placed on bids/offers with particular regard to activity towards the close of each respective Pricing Period for outright;
 - the length of time bids/offers have been active before the close of each respective Pricing Period for outright; and
 - the manner in which any price is incrementally moved, with particular regard to activity towards the close of each respective Pricing Period for outright.
13. Any trades and/or orders that are deemed to be out of line with prevailing market prices for the forward months will be disregarded by the Quotations Committee at its absolute discretion.
14. For the purposes of determining the forward months for the Closing Prices, the Quotations Committee may validate order and trading activity in LMEselect against other data sources and available spread trading information, including but not limited to inter-office activity and prevailing market prices.



Publication of Official Prices

15. When the Official Prices have been established for each Metal Future and each Aluminium Premium Contract, provisional prices will be published to LMEselect users via an LMEselect market message as soon as is practically possible after the close of the relevant Pricing Period for that metal (with 5 minutes being the target). LMEselect Member users will then have 5 minutes to raise objections to the provisional prices. If no objections are lodged with the LME after 5 minutes, the status of these prices will become final. If there is an objection lodged with the Quotations Committee, the objection will be reviewed with the resolution published to LMEselect users via an LMEselect market message. Any objections should be sent to the Quotations Committee at Closing.Prices@lme.com.
16. Official Prices will be made available to LME licenced data vendors both in their provisional and final status.

Publication of Closing Prices

17. When the Closing Prices have been established for each Metal Future and each Aluminium Premium Contract, provisional prices will be placed on the LME SFTP server for Category 1, Category 2 and Category 4 Members to view. At the same time, the Closing Prices will be disseminated to LME licenced data vendors with an appropriate message to show the status of these prices as provisional. The timing for the publication of provisional prices will be determined by the Quotations Committee, as soon as is practical after each metal closes out on LMEselect from 4.00 pm (or at a revised time communicated by the Exchange). The objection procedure will then apply until 5.30 pm (but can be extended subject to the discretion of the Quotations Committee). If no objections are lodged by 5.30 pm, the provisional prices will be the Closing Prices. If there is an objection lodged with the Quotations Committee, this will be reviewed with the resolution published to Members and LME licenced data vendors in the usual way. Any objections should be sent to the Quotations Committee at Closing.Prices@lme.com.

Establishment of Cash-Settled Future Daily Settlement Price for Cash-Settled Futures

18. In the event that trading is disrupted on LMEselect during the relevant VWAP window for a Cash-Settled Future, the Cash-Settled Future Daily Settlement Price shall continue to be determined using the current waterfall pricing methodology, except that a different pricing period shall be used to determine the Cash-Settled Future Daily Settlement Price and the timing of the publication of these prices will be determined by the Quotations Committee at a revised time communicated by the Exchange.



General

19. For the avoidance of doubt:-

- (a) the terms “bid” and “offer” at all times refers to best bid and best offer active in the market at the close of the Pricing Period;
- (b) only orders and transactions concluded up to the close of each respective Pricing Period on that day will be taken into account for the purposes of determining the Official Prices and Closing Prices;
- (c) the Official Prices and Closing Prices for each base Metal Future and each Aluminium Premium Contract will be established at the prescribed times (for example: a Pricing Period ending at 17:00 shall mean 16:55:00:000 - 16:59:59:999); and
- (d) where the Official Prices have been determined basis this Policy, the Official Settlement Price shall be the offer price for each Cash Prompt Date, or third Wednesday in Month 1 for Aluminium Premiums, that is determined.