

To: All Members and other interested parties

Ref: 21/075 (LME Notice)  
21-028 (LMEC Circular)

Date: 21 April 2021

Classification: Trading Fees

Subject: **2021 FERROUS LIQUIDITY PROVIDER PROGRAMME**

## Summary

1. This Notice (the “**Notice**”) announces the launch of a new liquidity provider programme (the “**2021 Ferrous LP Programme**”) for LME Steel Scrap, LME Steel Rebar, LME Steel HRC N America and LME Steel HRC FOB China (together the “**Ferrous Contracts**”). The 2021 Ferrous LP Programme will be launched on 1 May 2021, replacing the current incentive programme for the Ferrous Contracts (the “**Ferrous EQ Programme**”), which will expire on 30 April 2021.

## Background

2. This Notice announces the launch of the 2021 Ferrous LP Programme and includes details of the relevant eligibility criteria for participation, the commencement date, and the relevant incentives and how these are calculated, the application process and certain other information. Prospective participants are encouraged to consider the applicable requirements carefully.
3. 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.
4. The detailed Specifications of the 2021 Ferrous LP Programme are set out with this Notice and can also be found in the dedicated Specification document published on the LME website.
5. The Ferrous LP Programme will commence on 1 May 2021 and terminate on 30 April 2022.
6. Interested parties are invited to submit their applications to the LME Market Development department at ferrous@lme.com according to the following deadlines:



<b>Deadline for submission of completed applications</b>	<b>Start date of participation in the programme</b>
28 April 2021 Only applications received by this deadline will be considered in the selection of the initial group of Designated Participants	1 May 2021
Fifteenth day of the month	First day of the following month
15 March 2022	1 April 2022

## **Defined Terms**

7. 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”).

## **Market Making Strategy**

8. For the avoidance of doubt, participation in the 2021 Ferrous 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 and Notice 17/386). Participants in the 2021 Ferrous 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, will not be required to execute the MiFID II Market Making Agreement simply because of participation in the 2021 Ferrous LP Programme in and of itself. Members must inform the Exchange in the event that they consider they are pursuing a Market Making Strategy, as defined in the LME Rules, and also in the event that a Client of such Member is pursuing a Market Making Strategy.

## **Questions**

9. Members or other interested parties with any questions in respect of the 2021 Ferrous LP Programme are invited to contact the LME Market Development department by email at [ferrous@lme.com](mailto:ferrous@lme.com).

**Alberto Xodo**

**VP Sales**

cc: Board directors  
Steel Committee

## INCENTIVE PROGRAMME SPECIFICATIONS

### 2021 Ferrous Liquidity Provider (“2021 Ferrous LP”) programme

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](mailto: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 2021 Ferrous LP programme, a Participant:
  - i. must be a Member, Client or Indirect Client; and
  - ii. must, in the opinion of the LME, have the experience, technical and operational ability to meet the LP Obligations.
4. The Exchange may designate up to three (3) Participants (“**Designated Participants**”) to also receive a monthly stipend in addition to the other incentives available in the 2021 Ferrous LP programme that are available to all Participants.

### Eligible Contracts

5. The contracts initially eligible for the 2021 Ferrous LP programme are: LME Steel Scrap, LME Steel Rebar, LME Steel HRC N America, and LME Steel HRC FOB China (the “**Eligible Contracts**”). Other ferrous contracts may be added to the 2021 Ferrous LP programme via Notice.
6. The Eligible Contracts will be categorised in two groups. The current allocation to these groups is as follows:
  - Group A:
    - LME Steel Scrap
    - LME Steel Rebar
    - LME Steel HRC FOB China (Argus)
  - Group B:
    - LME Steel HRC N America (Platts)
7. Any additional Eligible Contracts that may be added to the 2021 Ferrous LP programme will be allocated to one of these groups and the allocation will be communicated via Notice. Any other changes to the allocation of Eligible Contracts to these groups will also be communicated via Notice.



## LP Obligations

8. The obligations for Participants are as follows (“**LP Obligations**”):

Contract group	Obligations			Notes
		Group A	Group B	
Prompts and lots per side (must provide quotes in each prompt)	Outrights	M1 to M7 (inclusive) – 2 lots per side M8 to M14 (inclusive) – 1 lot per side	M1-M14 (inclusive) – 1 lot per side	Larger lot sizes can be quoted, but must be broadly symmetrical in size.
	Carries	M1-M2, M2-M3, M2-M4, M2-M5 and M2-M6 – 1 lot per side	N/A	
Bid offer spread	Outrights	Within \$8	M1-M14 – 1 lot per side within \$10	Staggered quotes will be permitted, but the total required number of lots must be within the stated bid offer.
	Carries	Within \$5	N/A	
Quoting hours	1am-7pm London time			N/A
Required presence	Minimum of 9 hours per trading day per contract			N/A

## Incentives for the 2021 Ferrous LP programme

### Incentive eligibility

9. Participants will be eligible for receiving incentives for the 2021 Ferrous LP programme where they have met at least 50.00% of the LP Obligations on an aggregate basis across the Eligible Contracts. In order to determine whether a Participant has met 50.00% of the LP Obligations on an aggregate basis, the LME will determine the percentage of the LP Obligations that the Participant has met in relation to each of the Eligible Contracts, then calculate the arithmetic average of these figures.
10. When Participants trade, they will be allowed a grace period of sixty seconds to re-enter the required bid or offer, to ensure that they are maintaining their bid-offer spread.

### Fee Rebates

11. Participants that meet the conditions set out in paragraph 9 above will be eligible for up to 100% trading and clearing fee rebates of inter-office and LMEselect trades traded for the Participant’s own account. The Fee Rebates will be calculated on an aggregate basis across the Eligible Contracts pro-rata on the same basis as set out in paragraph 9 above.



### Liquidity Pool

12. Participants also have access to a total liquidity pool of up to US\$33,000 per month (the “**Liquidity Pool**”), subject to meeting the conditions set out below. If additional Eligible Contracts are added to the 2021 Ferrous LP programme, the LME may increase the size of the Liquidity Pool up to US\$41,000 per month at its discretion. Any changes will be communicated via Notice.
13. In order to be eligible for a share of the Liquidity Pool, Participants must meet:
  - a) at least 50.00% of the LP Obligations (calculated on the same basis as set out in paragraph 9 above); and
  - b) the volume threshold (the “**Liquidity Pool Threshold**”) of total Ferrous LP volume where LP volume shall comprise passive quotes (i.e. resting bids and offers in the electronic central order book, LMEselect) traded for the Participant’s own account, and which have been aggressed by other market participants (“**Total Qualifying LP Volume**”).
14. The Liquidity Pool Threshold is 10.00% of Total Qualifying LP Volume. If the number of Participants meeting the requirements set out in paragraph 9 above exceeds five (5), the Liquidity Pool Threshold will increase to 18.00% of Total Qualifying LP Volume.
15. Liquidity Pool payments for eligible Participants will be calculated as follows:
  - a) the Total Qualifying LP Volume that is attributable to the relevant Participant  
*divided by:*
  - b) the aggregate Total Qualifying LP Volume figure of each Participant that has met the Liquidity Pool Threshold and at least 50.00% of the LP Obligations  
*multiplied by:*
  - c) the monthly Liquidity Pool amount set out in paragraph 12 above  
*further multiplied by:*
  - d) the percentage of LP Obligations that the Participant has achieved.
16. All individual Liquidity Pool payments shall be capped at a maximum of 50.00% of the total Liquidity Pool.

### Monthly Stipend

17. Up to three Designated Participants will also have access to a monthly stipend of up to US\$5,000.
18. In order to be eligible for the monthly stipend, Designated Participants must meet the requirements set out in paragraph 9 above.
19. The monthly payable stipend for each Designated Participant, will be calculated pro-rata on the same basis as set out in paragraph 9 above.



### **Duration and application period of the 2021 Ferrous LP programme**

20. The 2021 Ferrous LP programme will commence on 1 May 2021 and terminate on 30 April 2022.
21. Interested parties are invited to submit their applications to the LME Market Development department at [ferrous@lme.com](mailto:ferrous@lme.com) according to the following deadlines:

<b>Deadline for submission of completed applications</b>	<b>Start date of participation in the programme</b>
28 April 2021 Only applications received by this deadline will be considered in the selection of the initial group of Designated Participants	1 May 2021
Fifteenth day of the month	First day of the following month
15 March 2022	1 April 2022

22. Interested parties must also submit, as part of their application, additional information related to:
- i. the party's proposed arrangements, which may include the number and experience of its traders, utilization of software, and IT support available;
  - ii. the party's knowledge of the ferrous industry and of the Eligible Contracts;
  - iii. the party's previous activity in the Eligible Contracts;
  - iv. the party's participation in other LME incentive programmes; and
  - v. the operational costs (such operational costs are likely to include the costs of staff responsible for electronic quoting, IT software and IT support) that are expected to be incurred in performing the required electronic quoting activities;.
23. The Exchange will base its selection of the initial group of Designated Participants on the evidence provided by applicants, in accordance with paragraph 22 above, and on the history of previous trading activity, electronic quoting and performance in previous LME incentive programmes for the Eligible Contracts. For the purposes of clarity, the information on costs requested in paragraph 22.v. will not be considered in the selection process.

### **Removal of participants and changes to Designated Participants**

24. The Exchange reserves the right to remove participants from the 2021 Ferrous LP Programme at its own discretion.
25. Participants will be removed from the 2021 Ferrous LP Programme where they fail to meet the requirements set out in paragraph 9 for two consecutive months.
26. Participants that for two consecutive months meet at least 90.00% of the LP Obligations and have one of the three largest shares of Total Qualifying LP Volume will become



Designated Participants and will be eligible for the monthly stipend from the following calendar month.

27. If the situation in paragraph 26 above were to happen, the Designated Participant that had the lowest share of Total Qualifying LP Volume in the previous month will become a normal Participant and cease to be eligible for the monthly stipend from the following calendar month.

### **Payment process**

28. The trade identifiers for the monitoring of performance under the 2021 Ferrous LP Programme will be the specific registered combination of:
  - Fix Tag 58
  - Fix Key
  - Fix Tag 109
29. The Exchange will not calculate rebates in respect of Client or Indirect Client Participants who trade through multiple Members. The application form will require that each Participant (who is a Client or Indirect Client) identifies a single Member through which it will undertake Ferrous LP activities for the purposes of this programme.
30. Rebates and Liquidity Pool payments (where applicable) will be credited to Members two months in arrears for the 2021 Ferrous LP Programme. For example, Ferrous LP activities conducted in January will be calculated in February and credited in March.