

To: All members and other interested parties

Ref: 21/202

Classification: Trading

Date: 19 October 2021

Subject: **LME COPPER – AMENDMENT TO LENDING RULES AND IMPLEMENTATION OF A BACKWARDATION LIMIT AND DELIVERY DEFERRAL MECHANISM**

Summary

1. The LME has been monitoring the ongoing tightness in the copper market, with Exchange inventories falling and nearby carries tightening. With immediate effect, the LME (acting through the Special Committee) has determined that it is appropriate in the circumstances to take the following three actions¹ in respect of copper, which are intended to ensure market orderliness: (i) amending certain requirements within the lending rules; (ii) imposing a limit on the backwardation for tom-next contracts; (iii) introducing a deferred delivery mechanism for certain contracts. These changes are intended to be temporary and will be reviewed as appropriate by the Special Committee.

Background

2. The Special Committee has been monitoring the LME copper market and the effect of current stock levels on trading for nearby Prompt Dates. The measures set out below are intended to maintain market orderliness, whilst ensuring liquidity continues to be made available in nearby Contracts.

Defined Terms

3. Defined terms used in this Notice shall have the meaning ascribed to them in the LME Rulebook or the Rules and Procedures of LME Clear, as applicable, unless otherwise defined in this Notice.

Special Committee Actions

4. After taking account of all of the relevant factors and having consulted with LME Clear, the Special Committee has resolved as follows:

Lending rules

- (a) The requirement for those holding a WTC Position in copper, which equates to 90% or more of the on-Warrant stock figure, to lend at level premium shall be amended with immediate effect. The volume that a participant will have previously been instructed to lend at level premium, will now be added to the volume a participant with a WTC Position, which equates to 80% or more of the on-Warrant stock figure, is required to lend at 0.25% of the previous day's Cash price. This measure is designed to ensure that participants are not dis-incentivised from continuing to hold live warrants (or to deliver in additional metal) in the current low-stock environment.

Backwardation limit

- (b) Members and their Clients are prohibited from placing orders in tom-next Contracts for copper on any LME Execution Venue at a price in excess of 0.5% of the previous day's Cash price. Should a trade be executed at a price greater than this, the relevant Members will be instructed to book a

¹ For the avoidance of doubt, all measures outlined in this Notice apply to both Cleared Contracts and Client Contracts.



reversal and correction through LMEsmart to adjust the trade so that the price is in line with the backwardation limit².

Deferred delivery – Prompt Date minus 1 day

- (c) As a last resort, those with short positions in copper falling prompt 21 October 2021, and on subsequent nearby Prompt Dates until further notice, who are unable to fulfil their Delivery Obligations and/or unable to borrow metal at a backwardation of no more than 0.5% of the previous day's Cash price, may have their delivery deferred by the Exchange, facilitated by instructions issued by the LME in relation to the manual booking of a tom-next carry against longs selected by the Exchange at a price of 0.5% of the previous day's Cash price. Those with long positions for prompt on those days who are subject to deferred delivery will need to book a tom-next carry against the respective shorts selected by the Exchange at a price of 0.5% of the previous day's Cash price. In both instances the Exchange will provide instructions to the relevant Members with regards to the trade bookings required.
5. These changes are intended to ensure market orderliness and continued liquidity, and the Exchange believes they represent a balanced approach in respect of all market participants.

Deferred delivery – operational requirements

6. All Clearing Members with short positions in copper for prompt next Business Day who would like to make delivery against such position must email lmecoperations@lme.com and posttradeoperations@lme.com by 14.00 the day before the Prompt Date to confirm that they intend to fulfil their Delivery Obligation.
7. **It will be assumed that Clearing Members who have short positions after this time who do not confirm their intention to deliver Warrants for prompt next Business Day wish for their Delivery Obligations to be deferred.**
8. All affected Members with long/short copper positions included in the deferred delivery will be contacted by Post-Trade Operations and instructed to book a tom-next carry in LMEsmart based on the details provided.
9. Those required to book tom-next carry trades in LMEsmart must do so by 15.30 the day before Prompt Date to ensure copper deliveries in LMEsword are reflected correctly at close of business.
10. In the event the entry of a tom-next carry is required to effect a delivery deferral then Members must ensure that the identity of the counterparty is only disclosed internally to those personnel who, from an operational perspective, require such information in order to action the deferred delivery.

Ongoing monitoring of the copper market

11. The decision of the Special Committee has been taken in accordance with its powers under Regulation 17 and Regulation 18.3 of Part 3 of the LME Rulebook. The Special Committee has taken the action it considers necessary in order to maintain continued market orderliness and avoid the development of an undesirable situation. The LME will continue to keep the copper market under review and, in conjunction with the Special Committee and LME Clear, will review the actions taken within this Notice, reverting back to the previous requirements as soon as it is considered prudent to do so.

Questions

12. Members who have questions regarding the process for the deferral of a Delivery Obligation (set out in paragraphs 4(c), 6 and 7 above should contact lmecoperations@lme.com.
13. Market participants with any questions or comments regarding the measures set out within points (a) or (b) of paragraph 4 above should email market.surveillance@lme.com.

² The provisions of Regulation 12.3 and Regulation 12.4A of Part 3 of the LME Rulebook shall apply to such adjustment, so that, without limitation, any information that relates to the identity of a counterparty must only be disclosed to those personnel who, from an operational perspective, require such information in order to action the price adjustment.



Peter Mason
Head of Market Surveillance

cc: Board directors
Special Committee