

To: All members and other interested parties

Ref: 22/092

Classification: Trading Trading

Date: 29 March 2022

Subject: **CONSOLIDATED GUIDANCE ON DISRUPTION EVENTS AND UPDATED GUIDANCE ON THE CALCULATION OF MONTHLY AVERAGE SETTLEMENT PRICES, MONTHLY MOVING AVERAGE PRICES AND NOTIONAL AVERAGE PRICES**

Summary

1. This Notice consolidates and updates guidance published by the LME to date in relation to Disruption Events. The Disruption Event framework was originally introduced through paragraphs 23 to 30 of LME Notice 22/064, and supplemented by paragraph 14 of LME Notice 22/067 and paragraphs 13 and 14 of LME Notice 22/068. This Notice withdraws all previous Notice provisions relating to Disruption Events and restates them in this Notice. It also provides further detail on how Disruption Events may impact the calculation of Monthly Average Settlement Prices (“**MASPs**”), Monthly Moving Average Prices (“**MMAPs**”)¹, and Notional Average Prices (“**NAPs**”).

Defined Terms

2. Capitalised terms not otherwise defined in this Notice shall have the meaning ascribed to them in the LME Rulebook.

Background

3. The LME implemented daily price limits through Notice 22/064, dated 14 March 2022, with further guidance issued in Notice 22/067 and Notice 22/080. As a result of the introduction of daily price limits the LME introduced a Disruption Events framework in Notice 22/064 and supplemented by Notice 22/067 and 22/068, to address the impact of the operation of daily price limits on the establishment of Official Prices and Closing Prices in certain circumstances.
4. This Notice: (i) withdraws paragraphs 23 to 30 of LME Notice 22/064, paragraph 14 of LME Notice 22/067 and paragraphs 13 and 14 of LME Notice 22/068; (ii) consolidates the Disruption Event provisions mentioned in (i) and restates the definition of Disruption Event; and (iii) provides further guidance on how MASPs, MMAPs and NAPs for all Contracts will be calculated where a Disruption Event has occurred.

Disruption Events

Framework

5. A “**Disruption Event**” is any event that causes the LME to notify the market that an Official Price or Closing Price for a base metal has been disrupted on a particular Business Day.
6. Without limitation, and subject to paragraph 7 below, disruptions may include the following:

¹ Defined in the LME Rulebook as the “Moving Monthly Average Settlement Price” but referred to in this Notice as the Monthly Moving Average Price or MMAP in order to reflect market convention.



- a) The suspension of trading of a base metal on any Business Day (unless the suspension takes effect after the LME has determined the Official Prices or Closing Prices (as applicable) for that day and the LME considers the price(s) to be reflective); and
 - b) For each base metal, where a daily price limit is reached for any Prompt Date in that metal, or would be implied to be reached by a combination of an outright and a carry, by way of a trade taking place at the daily price limit, a bid being placed at an upper limit, or an offer being placed at a lower limit, during the period within which the such price is being determined on a given Business Day.
 - c) Where any price is discovered using a Volume Weighted Average Price (“**VWAP**”), and a daily price limit is hit at any time during the VWAP window.
 - d) In general in relation to the establishment of Official Prices (in the Ring), where the daily price limit impacts the ability of market participants to appropriately hedge at the relevant Official or Closing Price.
7. The LME shall, in its absolute discretion, determine whether a Disruption Event has occurred. The general principle applied will be whether a daily price limit or suspension has impacted the ability of participants to appropriately hedge at the relevant Official or Closing Price. Typically, a Disruption Event in any Prompt Date for the Official Price shall apply to all Prompt Dates for which Official Prices are determined. Similarly, a Disruption Event in any Prompt Date for the Closing Prices shall typically apply to all Prompt Dates for which Closing Prices are determined. However, the LME may apply expert judgement to make its determination.
8. Where the LME has determined that a Disruption Event has occurred, the LME will inform the market as soon as possible following its determination. An Official Price or Closing Price that is determined to be subject to a Disruption Event will be referred to in relevant LME communications as a “**Disrupted Official Price**” or a “**Disrupted Closing Price**” in order to clarify the status of these prices for the purposes of use by market data customers in relation to non-LME Contracts (see further paragraph 13 below).
9. With effect from the date of this Notice, the LME will notify market participants of a Disruption Event in the following ways:
- a) in the interests of time, by email using existing email mailing lists (including the mailing list used to disseminate Rulebook Notices, and the mailing list used to disseminate market data notifications);
 - b) publishing a Notice to the LME website in the usual way as soon as possible following the Disruption Event; and
 - c) listing all Disrupted Official Prices and Disrupted Closing Prices on a new, dedicated section of the LME website as soon as practicable following the Disruption Event.

Market participants are advised that, given the types of Disruption Event described in paragraph 6 notification of a Disruption Event may occur on short notice.

Ring 2 Disruption Events

10. As such, the price is able to touch the limit ahead of the point of price discovery (e.g. the end of the Ring session) but not be determined to be a Disruption Event (if the price moved away from the limit by the end of the Ring session). Where the LME determines that an Official Price is subject to a Disruption Event as defined in Paragraph 6 above, the relevant Ring session (being R2) will be deemed a disrupted session. As a result, all Agreed Trades during this session will be null and void. Consequently, no Agreed Trades shall be entered into the Matching System and no Contracts shall be formed under the LME Rulebook or the LME Clear Rules.

Price-code trades

11. Where Members agree to price-code trades (e.g. guaranteed Official Price orders) conditional on a price being discovered without a Disruption Event, they may reverse these trades.



Consequences of a Disruption Event occurring

12. Where an Official Price or a Closing Price is affected by a Disruption Event in circumstances where the LME has already determined Official Prices or Closing Prices (as applicable) for that Business Day in accordance with the relevant Pricing Methodology, the LME will nonetheless utilise these Disrupted Official Prices for the settlement of physical Contracts and Disrupted Closing Prices for margining, as applicable.
13. The LME will also continue to publish these Disrupted Official Prices and Disrupted Closing Prices on its market data feeds. However, such prices shall not formally constitute Official Prices and Closing Prices for the purposes of contracts that are not LME Contracts.
14. Market participants that use LME prices as reference prices for OTC contracts, for derived data purposes, etc. are advised to have regard to relevant contractual terms (e.g. with their counterparties) to determine the impact that Disruption Events (and the consequent effect on LME prices) may have. The guidance in this Notice should not be relied on to assess such impact.

Calculation of MASPs, MMAPs and NAPs

15. Official Prices and Closing Prices are variously (and as detailed further in the applicable Benchmark Methodology published on the LME website) used as input data for the MASPs and NAPs. These prices in turn are used by the LME to price and by LME Clear to margin Monthly Average Futures (“**MAFs**”) and Traded Average Price Options (“**TAPOs**”). Below, this Notice sets out guidance as to how these prices will be calculated during a monthly averaging period in which a Disruption Event occurs. For the avoidance of doubt, this approach shall apply in relation to all metals where a Disruption Event occurs for such base metal. To ensure the integrity of the MASPs and NAPs calculation averaging periods during periods affected by a Disruption Event, each Business Day where a Disruption Event has occurred shall continue to count as a Business Day for the purposes of each pricing calculation. However, the Official Price / Closing Price for each affected Business Day will instead be the next available Official Price / Closing Price (as applicable) in the relevant averaging calculation (see paragraph 17 for guidance on Disruption Events at the end of the averaging period). By applying this method, the number of Business Days within the relevant averaging period will remain the same overall. The LME understands that this is an important consideration in relation to hedging transactions that are entered into OTC, and which relate to on-exchange MAF and TAPO positions.
16. It should be noted that where a Disruption Event has occurred, the MMAP may continue to be calculated and disseminated using any Disrupted Official Prices for the relevant metal and therefore may not be accurate for that period so should not be relied on. As per paragraph 15, the Disrupted Official Prices / Disrupted Closing Prices will still be used as input data for NAPs which are used for margining purposes for MAFs and TAPOs.
17. Where a Disruption Event occurs on the last business day of the month (“**Month End Disruption Event**”), the Official Price from the next available Business Day, where there is no Official Price Disruption Event, will be used as input data for MASP calculations. If there are five consecutive Disruption Events for a particular Official Price following a Month End Disruption Event, and the fifth Disruption Event has been caused by reaching daily price limits, then the most recent relevant Disrupted Official Price will be used as input data for the MASPs as the value for the date of the Month End Disruption Event and any consecutively preceding dates where the Official Price was disrupted. If (following a Month End Disruption Event and five further consecutive Disruption Events) the fifth Business Day, is a Disrupted Official Price caused by the market being suspended, then the LME may use expert judgement to determine the Official Price that will be used as input data for the MASPs (both as the value for the date of the Month End Disruption Event and any consecutively preceding dates where the Official Price was disrupted).
18. In the event of a Month End Disruption Event, MAFs and TAPOs will be settled using the MASP that includes the Disrupted Official Prices (back-filling the month-end Disrupted Official Price if necessary as described in Paragraph 16). Cash flows will be adjusted subsequently so as to create a balancing payment between LME Clear and the Member to reflect the final corrected MASP once it has been determined using the methodology outlined in paragraphs 15 and 17.
19. Regulation 14 of Part 3 of the LME Rulebook sets out prohibited behaviours, and Members are reminded of their obligations under this Regulation, particularly in the context of Disruption Events.



20. The LME understands that some market participants use averaging calculations based on the Official Prices and/or Closing Prices to value OTC averaging contracts. Market participants are reminded that they should have regard to the contractual terms with their counterparties in determining the impact that any Disruption Events (and consequent effect on LME prices) may have on these contracts. The guidance in this Notice should not be relied on to assess the impact to OTC contracts.

Benchmarks Regulation documentation

21. The LME shall update all relevant benchmark documentation relating to the Official Prices, Closing Prices, MASP and NAP benchmark families in due course (“**Benchmark Documentation**”) to reflect the introduction of daily price limits and Disruption Events. Updated Benchmark Documentation will be published on the LME website².

Queries

22. Members should direct any general questions relating to this Notice to the LME Relationship Management team at RM@lme.com.

James Cressy

COO

cc: Board directors
Special Committee
User Committee
All Metals Committees
Ring Dealers Committee
Traded Options Committee
Warehousing Committee
Physical Markets Committee

² <https://www.lme.com/en/company/market-regulation/benchmark-regulation>