



To: All members and other interested parties

Ref: 22/099 (LME Notice Reference)
22-022 (LME Clear Notice Reference)

Classification: Trading

Date: 4 April 2022

Subject: **NICKEL MARKET INTERIM TRADING MEASURES AND ESTABLISHMENT OF AN INDEPENDENT NICKEL MARKET TRADING REVIEW**

Summary

1. This Notice provides an update on: (i) the LME's Nickel market interim trading measures, including daily price limits and the provision of OTC position data to the LME; and (ii) the establishment by the LME and LME Clear (together the "LME Group") of an Independent Review (defined below) that will review recent events in the Nickel market, in addition to the external reviews announced by the Financial Conduct Authority (the "FCA") and the Bank of England.

Defined terms

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

Background

3. During 7 March 2022, significant upward price movements were observed in the Nickel market. However, the LME considered that trading activity up to and including close of trading that evening had been orderly.
4. During the early hours of trading on the morning of 8 March 2022, Nickel prices moved up significantly in a short period of time. It became clear that the Nickel market had become disorderly.
5. On 8 March 2022, the LME, in consultation with LME Clear, suspended trading in all Nickel contracts with effect from 08:15 UK time (Notice 22/052); and cancelled all trades executed on or after 00:00 UK time on 8 March (Notice 22/053). The background to these decisions is set out in Notice 22/057.
6. In the lead up to the resumption of Nickel trading on 16 March 2022, the LME worked with stakeholders to assess market conditions and implemented additional operational arrangements for an orderly resumption of trading, including the introduction of daily price limits and the provision of OTC nickel trading data, which had previously not been available to the LME.
7. The events leading up to the suspension and resumption of Nickel trading were unprecedented. The LME fully recognises the impact of these events on a broad spectrum of market participants, and understands that not all participants agreed with the course of action undertaken. The LME sought to act in the interests of the market as a whole and acknowledges the concerns expressed by some market participants. The LME is committed to ensuring that the actions of all participants (including the LME itself) are fully reviewed, and appropriate actions taken to both restore confidence and support the long-term health and efficiency of the market.
8. One aspect that the LME has already identified as having contributed to the situation was sizable positions in the OTC market and the LME's lack of direct visibility of such activity.



9. This Notice sets out the interim measures taken by the LME to protect market stability and to minimise the potential for future disorderly price moves. It also includes new information about the provision of OTC data required to ensure full and comprehensive monitoring of both market and other positions taken at any given time. Further, this Notice sets out the initial parameters and key outputs for an Independent Review of Nickel market trading and associated market structure considerations.
10. The LME will remain vigilant and continue to review the situation and the environment to ensure market stability. For the avoidance of doubt, the LME reserves its right to introduce further interim measures as appropriate to ensure market stability pending the outcome of the Independent Review.

Interim Nickel market measures

Daily price limits

11. The LME has introduced 15% upper and lower daily price limits for all of its physically delivered metals (and cash-settled cobalt to ensure consistency across its two cobalt contracts), to provide an extra market stabilisation mechanism.
12. Daily price limits have not historically been a feature of LME markets, and market participants have preferred not to have these types of controls in place. However, the LME understands there is now broad support for retaining the daily price limits for the foreseeable future so as to provide clear known price boundaries for daily trading and minimise the potential for disorderly price moves.
13. To support the re-opening of the Nickel market on 16 March 2022, the LME introduced new features to enable LMEselect to support daily price limits. However, the speed at which this technology had to be implemented to re-open the Nickel market resulted in some initial technology issues that allowed a very small number of trades to execute below the lower limit on 16, 17 and 18 March 2022. These trades were cancelled in accordance with the LME's Rules and procedures.
14. Notwithstanding the need for a rapid deployment, the issues experienced on those stated days were regrettable and the LME thanks market participants for their patience while the technology issues were resolved.

Provision of OTC data

15. The LME currently (per Notice 22/064) requires and receives OTC position data for Nickel on a daily basis. The Exchange believes this to be vital for the appropriate monitoring of the Nickel market, given the events in Nickel were linked to the existence of large short positions on the OTC market, of which the LME had no visibility prior to 8 March 2022.
16. The Discussion Paper on Market Structure published in January 2021, and the Response Paper published in March 2021, laid out the LME's views that having appropriate access to OTC data was important to ensure it had appropriate oversight of activity most likely to impact LME markets. While some market participants were not supportive of this view, the LME confirmed that it would investigate introducing such OTC reporting. The recent events in the Nickel market have demonstrated the potential impact that OTC trading can have on the wider LME market, and as such, the LME believes it should prioritise implementing OTC trade reporting for all LME metals. In the longer term, the LME believes it should capture near-real time reporting of OTC trades. However, it acknowledges the operational challenges with implementing this in the short term.
17. As such the LME believes the appropriate first step is to extend the provision of OTC daily position reporting (as is now implemented for Nickel) to other metals. The Exchange is currently considering the optimal format for this, and the LME's Market Surveillance function will communicate directly with Members on this matter in due course.

Independent Nickel market trading review

18. The LME and LME Clear believe it is important that their actions in responding to the Nickel market situation are subject to proper scrutiny. In this context, the LME Group welcomes today's announcement by the FCA and the Bank of England, in respect of a review of the actions taken in response to events in the Nickel market to determine what lessons might be learned.



19. In addition, the LME Group will commission an independent review of broader events in the Nickel market leading up to the suspension (the “**Independent Review**”) to identify any actions that could be taken to minimise the risk of a disorderly market arising in future.
20. The LME Group will engage an experienced independent party (or parties) to undertake the Independent Review. The LME Group intends to confirm the appointment of the independent party, together with the full scope of the Independent Review, in an announcement to the market as soon as practicable. The timeline for the Independent Review will be established in consultation with the independent party.
21. The full and detailed scope of the Independent Review has yet to be determined, however, broadly it will undertake to:
 - a. Conduct a full forensic review of trading and position activity in the Nickel market, including OTC trading over the relevant period;
 - b. Assess proposals for market reform which have already been raised by market participants;
 - c. Assess what volatility control mechanisms should be implemented longer-term;
 - d. Consider a more stringent position management regime; and
 - e. Consider additional market reform recommendations from market stakeholders.
22. Given the complexity of the situation (especially the significant OTC component), and to assist the LME Group in the discharge of its regulatory obligations, the Independent Review will have access to all the relevant data in respect of trading activity and position holdings for the period under review. Where and when appropriate, the LME Group will use its Rulebook powers to obtain OTC and other data from market participants, and make this data available to the independent party that will be undertaking the Independent Review.
23. Once the Independent Review has commenced, all market participants will be welcome to submit their views to the independent party.
24. The Independent Review will be asked to deliver key outputs which will include, but not be limited to:
 - a. A full forensic review of trading in the relevant period in order to fully identify and understand the circumstances that led to the situation in the Nickel market. The output from this review of trading and position activity will assist the LME in considering what further steps may be appropriate in terms of its investigatory and/or disciplinary powers. Pursuant to the LME’s disciplinary process, a disciplinary committee may impose one or more penalties, including reprimands, fines, restitution orders, forfeiture of gains and requirements to comply with terms and conditions. It should be emphasised that there can be no certainty that any investigations or disciplinary actions will indeed be undertaken – these decisions will be considered in light of the output of the Independent Review.
 - b. Recommendations as to potential market structure changes which could minimise the potential for a similar situation to arise again in future.

Summary

25. The LME Group wishes to acknowledge the impact of recent events on many stakeholders. The LME Group believes the actions announced in this Notice, together with the review by the FCA and Bank of England, will support the long-term health, efficiency and resilience of the market and all its constituents.

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cc: Board directors
Special Committee
Nickel Committee
User Committee