

To: All members and other interested parties

Ref: 23/057

Classification: General updates

Date: 3 April 2023

Subject: **RE-CATEGORISATION OF NOTIONAL AVERAGE PRICES UNDER THE UK BENCHMARKS REGULATION**

Summary

1. The Notional Average Prices (“**NAPs**”) for The London Metal Exchange (“**LME**”) are currently categorised as “benchmarks” under the UK Benchmarks Regulation (“**UK BMR**”). This Notice informs users of the NAPs that the LME intends to re-categorise the NAPs for UK BMR purposes. With effect from 2 May 2023, the NAPs will no longer be treated as benchmarks under the UK BMR and will therefore no longer be permitted to be used by UK supervised entities as benchmarks from this date.

Defined terms

2. Capitalised terms not otherwise defined in this Notice shall have the meaning ascribed to them in the rules and regulations of the LME.

Current and future UK BMR categorisation

3. The NAPs are used by the LME Group solely for the margining and risk management of Monthly Average Futures and Traded Average Price Options. In advance of the LME’s authorisation as a benchmark administrator on 3 December 2019, the LME elected to categorise the NAPs as benchmarks due to uncertainty on whether the use of a price solely for margining and risk management of a financial instrument amounts to “use” under the UK BMR¹.
4. With the UK BMR having now been effective for a number of years, the LME has reviewed its position and, in line with market convention, believes that the use of an index solely for margining and risk management purposes does not amount to “use of a benchmark”². Additionally, the LME is not aware of any other

¹ Absent reliance on the CCP exemption in article 2(2)(c).

² Such prices do not appear to be treated by other UK venues (that are benchmark administrators) as benchmarks.



use of the NAPs that would amount to “use of a benchmark” within the meaning of the UK BMR.

5. As a result, the LME intends to re-categorise the NAPs under the UK BMR such that, with effect from 2 May 2023, the NAPs will no longer be treated as benchmarks under the UK BMR. This means that from this date, “supervised entities” (as defined in the UK BMR) will no longer be permitted to use the NAPs for any purpose that amounts to “use of a benchmark” under the UK BMR. On 2 May 2023, the LME List of Benchmarks, accessible via the LME’s benchmark regulation webpage³, will be updated to reflect this re-categorisation and the BMR methodology and BMR benchmark statement for the “Notional Average Prices” Benchmark Family will be removed. Given that, as noted in paragraph 4 above, the LME is not aware of any use of the NAPs as benchmarks, this is not anticipated to have any practical impact for the market.
6. For the avoidance of doubt, the NAPs will continue to be permitted to be used for limited internal use, but, with effect from 2 May 2023, will be a “Non-Licensable Dataset” under the LME Usage Licence. The NAPs will also not be available for licensing under the Derived Data, Structured Products or Trade, Clearing & Settlement Licenses. However, the NAPs will continue to be permitted to be distributed under the Distribution Licence.

Questions

7. The LME is aware that where a “supervised entity” wishes to use a price in a way that amounts to “use of a benchmark”, that price must meet certain UK BMR requirements⁴. While the LME does not consider that the re-categorisation described in this Notice will impact on any supervised users of these prices, or any other market participants, users who have questions regarding the re-categorisation should contact the LME Benchmarks team by email to: benchmarks@lme.com.

Jamie Turner
Interim Chief Operating Officer, LME

cc: Board Directors
All Metals Committees
Ring Dealers Committee
Traded Options Committee
User Committee

³ <https://www.lme.com/en/about/regulation/benchmark-regulation>

⁴ Article 29 UK BMR.