

To: All members and other interested parties

Ref: 25/117

Classification: General Updates

Date: 20 June 2025

Subject: **AMENDMENT TO LENDING RULES: INTRODUCTION OF FRONT MONTH LENDING RULES**

Summary

1. In recent months the LME has been closely monitoring large positions across multiple Contracts. With immediate effect, the LME, acting through the Special Committee, has determined that it is appropriate in the current circumstances, to amend the existing Lending Rules to introduce “Front Month Lending Rules”. These changes to the Lending Rules are temporary and will be reviewed as appropriate by the Special Committee.

Background

2. In recent months there have been a number of occasions when market participants have had significant positions in nearby prompt dates. The LME has been closely monitoring these positions, and at times the Special Committee has directed market participants to take a number of actions to reduce large on-exchange positions relative to prevailing stock levels.

Defined terms

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

Special Committee Actions

4. In view of market conditions, the LME, acting through the Special Committee, has decided to now amend the Lending Rules to introduce the Front Month Lending Rules, as the LME believes that having a published rule that applies to the whole market is the most appropriate measure to mitigate the development or likely development of a corner or undesirable situation that is likely to affect the market (including the potential information asymmetries to arise as a result of some participants being aware of previous Special Committee actions).
5. The new “Front Month Lending Rules” will form part of the Lending Rules (which are themselves set out in the Policy Relating to Position Management Arrangements (the “**Policy**”)).
6. The changes to the Lending Rules presented in this Notice are temporary and will be reviewed as appropriate by the Special Committee.
7. To differentiate these new rules from the existing ones, the Lending Rules will temporarily distinguish between (1) the “Tom-Next Lending Rules” and (2) the Front Month Lending Rules (together the “**Lending Rules**”). The details are set out in the Policy.



Effective date of entry of the Front Month Lending Rules

8. The introduction of the Front Month Lending Rules is reflected in the redline version of the Policy attached to this Notice in Appendix 1. The amended Policy will be published on the LME website and comes immediately into effect.
9. The Front Month Lending Rules are introduced on a temporary basis and will be reviewed as appropriate by the Special Committee. At a later stage the LME may, if appropriate, formally consult on whether these changes to the Lending Rules should be made permanent.

Next Steps

10. At a later stage the LME may, if appropriate, formally consult on whether these changes to the Lending Rules should be made permanent. Such a consultation may consider the introduction of such rules on a permanent basis in their current form, or in a modified form such as potentially using different metrics to assess positions and available stock levels, different lending requirements, and/or other modifications as appropriate. Ahead of any such consultation, the LME would welcome any participant feedback on these topics to market.engagement@lme.com.

Questions

11. Market participants who have questions regarding the Front Month Lending Rules should contact market.surveillance@lme.com.

Jamie Turner

COO & Head of Trading

cc: Board directors
Special Committee



Appendix 1 – Policy Relating to Position Management Arrangements



Appendix 1 - Policy Relating to Position Management Arrangements

Introduction

1. In order to ensure that the price discovery process is not unduly influenced by the existence of a position, which can include the holding of Warrants, the LME has in place arrangements to ensure that all positions held on the market are subject to ongoing monitoring. Where appropriate, the LME may take such action, through the Special Committee, as deemed appropriate to ensure that no position holder is able to exercise an undue influence on the market. Regulation 17 of Part 3 (Emergencies) of the LME Rulebook sets out the powers of the Special Committee.
2. It should be noted that the existence of a dominant position is not abusive *per se*, nor that the LME seeks to prevent the existence of such positions. Instead, the aim is to ensure that where such positions are held by market participants, the ongoing management of the position does not have an undue influence upon the market. For the avoidance of doubt, managing a position on the market would include not only active management through trading activity but also passive management through the lack of market activity – i.e. the withholding of liquidity from the market.

Defined Terms

3. Terms defined in the LME Rules and Regulations (the “LME Rulebook”) shall have the same meaning in this Policy Relating to Position Management Arrangements (the “Policy”), unless stated otherwise.
4. All times referred to throughout this Notice are UK Time.

Position Management Arrangements

- 4.5. Members should note that throughout this Policy a 24 hour time format is used and all times refer either to UK Greenwich Mean Time or UK British Summer Time, depending on whether Daylight Saving Time is being observed.
- 5.6. In addition to the ongoing monitoring of positions referred to above, the LME has the following arrangements in place:
 - a) Daily reporting of positions;
 - b) Lending Rules;
 - c) Warrant financing;
 - d) Accountability levels; and
 - e) Position Limits.
- 6.7. To support these arrangements, the LME requires Members to provide certain information on a daily basis including position reports and details of financing arrangements, as well as manage Warrant inventory in LMEsword in line with guidance set out within this Policy.
- 7.8. Details of the arrangements and reporting requirements are set out below.

Daily Reporting of Positions

- 8.9. In accordance with the obligations contained within Regulation 20.3 of Part 3 of the LME Rulebook, Members must provide a daily Commodity Position Report (“CPR”) to the LME in accordance with the format required by the Exchange. These position reports must be submitted to the LME Universal Data Gateway (“LME UDG”) and must be received by the LME before 08:30:00 the next business day following the date of the report.

Positions to be Reported in CPR files

- 9.10. Category 1, 2, 3 and 4 Members must report every single net LME position in respect of:
 - a) All aggregated proprietary accounts of a Member; and
 - b) Any Client account.



- ~~40-11.~~ In respect of Client Contracts, the reports must be compiled on the basis of all Clients who hold those Client Contracts. Where a Member operates an omnibus account on behalf of underlying Clients of an intermediary, the reports must account for each of those underlying Clients separately (except in the case of pooled funds). Members should not treat intermediaries as the holders of aggregated positions if the underlying Clients are the holders of the Client Contracts.
- ~~41-12.~~ For each of the Member proprietary or Client accounts described above, net market positions should be reported by an International Securities Identification Number ("ISIN"). Each commodity and Prompt Date for Futures Contracts and commodity, option date, option type and Strike Price for Options Contracts have their own unique ISIN. Positions should not be reported twice.
- ~~42-13.~~ Positions reported by Members each morning are those at the close of business on the previous business day. Trades that remain unmatched at close of business should not be included in Member's position reports the next day. Only on-exchange LME registered positions should be reported. Over the counter ("OTC") positions or LME look-alikes should not be reported nor netted with on-exchange positions. In the event a Member has unmatched trades at close of business for the Cash prompt they should inform Market Surveillance via email before 08:30:00 the next morning.

Reporting Procedure

- ~~43-14.~~ Category 1, 2, 3 and 4 Members must submit their CPR file to Market Surveillance using the LME UDG, before 08:30:00 each business day. Members must have appropriate systems and controls to ensure that data contained in CPR files is complete and accurate.
- ~~44-15.~~ Members should contact both Regulatory Reporting and Market Surveillance immediately if they find that they are unable to meet the daily deadline to submit their CPR file. Members who have to resubmit their CPR file after the reporting deadline because they need to correct erroneous or incomplete submissions must inform both Regulatory Reporting and Market Surveillance of each resubmission as soon as possible.
- ~~45-16.~~ Members who automate their file submission must check their report status for transmission or validation error messages sufficiently in advance of the reporting deadline to ensure that they can correct and re-submit their reports to the LME by the required deadline.
- ~~46-17.~~ While Members may delegate the calculation and transmission of their CPR file to third parties, they retain the responsibility under the LME Rulebook for the accuracy and completeness of the data and submission to the LME by the required time. If delegated to a third party Members must be able to demonstrate appropriate oversight of those submissions, including compliance with the obligations contained in this Notice and the LME Rulebook.
- ~~47-18.~~ Members must ensure that adequate and ongoing testing is undertaken of systems and controls procedures used to report to the LME to ensure that the information provided to the LME is accurate and complete.
- ~~48-19.~~ Members requiring further information on LME UDG or CPR should refer to the relevant specification documents, which can be found on the LME website at:

<https://www.lme.com/about/Regulation/Rules/Key-compliance-notice>

LMEsword Warrant Management

- ~~49-20.~~ Whilst LMEsword does not purport to create a register of beneficial owners of metal to which Warrants relate it is now necessary, in order that the LME can effectively monitor positions and issue Lending Rules, for Members to ensure Warrants are managed in line with this Policy.
- ~~20-21.~~ Members must ensure that by no later than 17:00:00 each day all Warrants that are under its control are allocated to specific accounts within LMEsword. The account to which they are allocated to must reflect the party who holds the proprietary interest in the metal to which the Warrants relate (the "Effective Controller").



24-22. Each Member's LMEsword account that holds Warrants must have a valid short code assigned to it in the Compliance Reference field. This short code must have been uploaded to the LME UDG in a Personally Identifiable Information ("PII") file no later than 17:00:00 on the day Warrants are first held in the LMEsword account, and the underlying Legal Entity Identifier ("LEI") or natural person information must correspond to the Effective Controller of that Warrant. Members should note that no 'point of entry' validation for the Compliance Reference field is in place and it is therefore a Member's responsibility to ensure the short code entered is in a valid format and has been uploaded to UDG. Further information around PII file submissions can be found on the LME website at:

<https://www.lme.com/about/Regulation/Rules/Key-compliance-notice>

22-23. For the avoidance of doubt, even in the event that a Warrant has been transferred to a third party, the entity which retains the proprietary interest in the metal to which the Warrant relates would be considered the Effective Controller.

23-24. There are a number of ways in which a party can achieve effective control of Warrants held by another. These include where:

- (a) the holder of Warrants has an obligation such that they will retain the Warrants while the obligation is outstanding;
- (b) the person to whom the holder of the Warrants owes the obligation is aware that the Warrants are being held against the obligation; and
- (c) the person to whom the obligation is owed has effective control over whether those Warrants can become available to the market.

24-25. Although not an exhaustive list, specific examples of where a proprietary interest may still be retained in a metal to which a Warrant relates, even though it has been transferred to a third party, would include when a Warrant has been placed ~~in to~~into a financing arrangement or pledged to LME Clear as collateral.

25-26. In the event that a Member, or as the case may be, a Client has effective control over (rather than possession of) Warrants, the LME will aggregate those Warrants with other Warrants held by, or to the order of, the Member or, as the case may be, the Client. The result will be that the total number of Warrants will be counted towards the Member's or, as the case may be, the Client's Warrant holdings, cash today and cash positions for the purposes of calculating lending under the Lending Rules. The Lending Rules will therefore apply to the total aggregated number of Warrants

Failure to report in an accurate and timely manner

26-27. Members are advised that the failure to report CPR files and manage their Warrants in LMEsword in an accurate and timely manner may result in action being taken by the LME. As a general rule, the LME may take action against a Member where errors and/or late submissions are observed on 5 or more business days within a calendar month.

27-28. There are a variety of circumstances that may lead the LME to conclude that there is an error with a Member's position reporting or Warrant management. These are set out in a non-exhaustive list below:

CPR

- (a) **Late submission of files** - Members must submit CPR files before 08:30:00 each business day;
- (b) **Errors in accuracy of positions reported** - The positions reported in Members' CPR files must be free of errors;
- (c) **Duplicate submissions** - Unique positions for each position holder must only be reported once;

Warrant Management

- (d) **Late allocation of Warrants** – Members must ensure Warrants are allocated to specific LMEsword accounts no later than 17:00:00;



- (e) **Incorrect allocation of Warrants** – Members must ensure Warrants are allocated to specific LMEsword accounts which identify the Effective Controller of those Warrants. Leaving Warrants in collection accounts overnight would be captured under this type of error;
- (f) **Blank Compliance Reference fields** – Members must ensure that each LMEsword account that holds Warrants contains a valid short code in the Compliance Reference field. This short code, when mapped to data held by the LME, should reflect the Effective Controller of the Warrants; and
- (g) **Invalid short codes** – Each short code in the Compliance Reference field within LMEsword should have been uploaded to LME UDG prior to the LMEsword account having Warrants allocated to it. This is to ensure that the short code can be mapped to the relevant LEI or natural person information held by the LME and the Effective Controller of the Warrant can be identified.

Lending Rules

~~28-29.~~ The LME has a regulatory obligation to ensure it has appropriate measures in place to reduce the extent to which the LME can be used for a purpose connected with market abuse, including but not limited to an abusive squeeze. In order to comply with this obligation, the LME issue Lending Rules to market participants holding dominant positions, instructing them to provide a certain amount of liquidity in ~~the tom-next contract at a pre-determined price~~ certain nearby contracts, to ensure they cannot exert an undue influence on the market price of a particular contract, and in extremis squeeze the market.

Tom-Next Lending Rules

~~29-30.~~ The LME's Tom-Next Lending Rules rely upon the reporting by Members on a daily basis of all open LME positions as well as Warrant information held in LMEsword at 17:00:00 the previous business day. Using this information the LME will require Members or their Clients to adhere to the following obligations:

- (a) If at any time a Member or Client holds 50% or more of the Warrants and/or cash today/cash positions in relation to the open Warrant stocks as published at 09:00:00 each morning ("Live Warrants"), they should be prepared to lend, at a premium of no more than 0.5% of the cash price for a day, to reduce the position below 50%.
- (b) If at any time a Member or Client holds 80% or more of the Warrants and/or cash today/cash positions in relation to the Live Warrants, they should be prepared to lend, at a premium of no more than 0.25% of the cash price for a day, to reduce the position below 80%.
- (c) If at any time a Member or Client holds 90% or more of the Warrants and/or cash today/cash positions in relation to the Live Warrants, they should be prepared to lend, at a premium of no more than Level, to reduce the position below 90%.

~~30-31.~~ The cash price used to calculate the premium each business day is the LME official cash settlement price published the previous business day. The maximum premium percentage is expressed as a US dollar amount rounded down to the nearest cent.

~~31-32.~~ The Tom-Next Lending Rules state that a dominant position holder "should be prepared to lend, if asked". This expression means that the dominant position holder should respond to demand in the market for borrowing at the premium set by the Tom-Next Lending Rules. The dominant position holder is not obliged to lend if the market demand for tom-next borrowing is at a backwardation premium below that specified by the Tom-Next Lending Rules.

~~32-33.~~ Lending tom-next involves selling for the tom Prompt Date and buying for the cash Prompt Date. Where a dominant position holder reduces its Warrant holding ("W"), net tom trading position ("T") and net cash trading position ("C") (W, T and C, known collectively as the "WTC Position"), on one day by lending tom-next, it will be adding to its C position for the purposes of calculating its WTC Position the next morning. This explains how a person may abide by the Tom-Next Lending Rules but maintain a dominant position on successive days.



33-34. As with the publication of large position information, in determining the application of the Tom-Next Lending Rules, the LME shall aggregate the positions of an entity across all brokers in reaching its estimate of dominant positions. Likewise, the LME shall aggregate the positions of a Member or Client and such entity's related group companies unless the entity can demonstrate that the positions were independent.

How to calculate a dominant position

34-35. The basis of a relevant position in any metal for the purposes of the Tom-Next Lending Rules is the total of a person's WTC position expressed in Lots. That net WTC Position is divided by the number of Live Warrants, expressed in Lots, for that metal. The result of $(W + T + C) \div (\text{Live Warrants})$ is expressed as a percentage to two decimal places. For example, a Warrant position of 123 Warrants, a net tom position of 456 Lots and a net cash position of 789 Lots will equal 1,368 Lots. If the total number of Live Warrants were 1,500, the WTC Position would be 91.20%.

$$\frac{(123 + 456 + 789)}{1,500} = 91.20\%$$

35-36. The denominator used is Live Warrants rather than total stock. Total LME ~~stock~~ Stock in each metal is the sum of Live Warrants and cancelled Warrants.- This means that if a dominant position holder reduces its Warrant holding by cancelling Warrants, it will also be reducing the denominator used to calculate the size of their dominant position.

36-37. The resulting percentage forms the basis for calculating the number of Lots that a dominant position holder must be prepared to lend. The Tom-Next Lending Rules treat a WTC Position of 50% and above as dominant. This means that a position holder is subject to the Tom-Next Lending Rules until its WTC Position is reduced to 49.99%. For practical reasons, these percentages need to be expressed in Lots as whole numbers. In the above example, 50% of 1500 Lots equals 750 Lots. Therefore, 749 Lots equals less than 50%. The dominant WTC Position $(123 + 456 + 789)$ equals 1,368 Lots. The holder would have to be prepared to lend 619 Lots to reduce his WTC Position down to 749 Lots. Expressed as percentages, this means that the dominant position holder must be prepared to lend 41.21%, rounded up to the nearest lot.

37-38. The figures used in calculating a WTC Position are those reported by Members to the LME before 08:30:00 each business day as well as the Warrants managed by each Member, whether that be for their own account or that of a Client, at 17:00 the previous business day. The figures relate to the WTC Positions as at the close of business on the previous business day.

38-39. The LME automatically aggregates the WTC Positions held by an entity across two or more Members and will also aggregate positions of affiliated companies, such as, but not limited to, those who share a common beneficial owner. The LME may also aggregate the WTC Positions of unconnected parties if the LME believes that there is a common purpose.

39-40. The net WTC Positions are divided by the number of Live Warrants, which are the same as those included in the stock figures published by the LME at 09:00:00 each business day. The relevant stock figures for complying with the Tom-Next Lending Rules on any tom trading day are those published that morning.

40-41. As WTC Positions are calculated each morning on the basis of figures as at the close of business on the previous business day, the reported T trading position will have become a delivery obligation for that day and the reported C position will have become a tom position for that day. In order to reduce that reported WTC Position in line with the Tom-Next Lending Rules, the dominant position holder should be prepared to lend tom-next.

41-42. Any increase in a tom position during a tom trading day that brings the combined Warrant, same-day Warrant delivery and tom position at or above 50% of Live Warrants will be a dominant position for the purposes of the Lending Rules and the dominant position holder should therefore be prepared to lend in accordance with paragraph 29(a) above. Similarly, in the event that a tom position is increased during a tom trading day that brings the combined Warrant, same-day Warrant delivery and tom position at or above 80% or, as the case may be, at or above 90% of the Live Warrants, the dominant position holder should be prepared to lend in accordance with paragraph 29(b) or 29(c) above respectively. In the event



a market participant has increased their tom position such that they would be considered a dominant position holder when they previously were not, or the increase in position meant their combined Warrant, same-day Warrant delivery and tom position was now in a higher lending band than previously, they must inform Market Surveillance as soon as possible.

How to comply with the [Tom-Next](#) Lending Rules

~~42-43.~~ The [Tom-Next](#) Lending Rules are an obligation placed on those who hold a dominant long position for which the [Tom-Next](#) Lending Rules apply. The holder of the dominant position is ultimately responsible for its own compliance with the [Tom-Next](#) Lending Rules. This is the case both for Members and non-Members. In the case of a non-Member, compliance with the [Tom-Next](#) Lending Rules require the non-Member to give appropriate instructions to one or more of its brokers.

~~43-44.~~ Where the LME identifies a dominant position, the holder of that position will be contacted to advise of any steps to be taken with regard to the management of the position. These steps could include adjustments to a WTC Position to account for OTC business being brought onto the market that day. Many non-Members prefer to have these discussions direct with the LME rather than go through one or more of their brokers. Although, both Members and non-Members may discuss their WTC Positions with the LME, the holder of a dominant position is best placed to know the size of their own WTC Positions. Once the LME stock figures are published at 09:00:00 a position holder is able to calculate whether or not its net WTC Position triggers the [Tom-Next](#) Lending Rules.

~~44-45.~~ Increases or decreases in the LME Live Warrant figures from the previous day's figures may affect whether a WTC Position is dominant and whether that dominance exceeds the 50%, 80% or 90% threshold. For this reason, a dominant position holder is entitled to wait until the LME stock figures are published before complying with the [Tom-Next](#) Lending Rules. Notwithstanding the above, a dominant position holder should not delay complying with the [Tom-Next](#) Lending Rules and should be prepared to lend as soon as reasonably practicable following the publication of the LME stock figures. If there has been a material change in the Live Warrant figures, the dominant position holder and relevant counterparties may, upon the LME's instruction, have to adjust some of the trades executed prior to the LME stock figures being published in order to ensure that the lending has complied with the [Tom-Next](#) Lending Rules. In the event adjustments are required they will be processed in chronological order.

~~45-46.~~ A dominant position holder must lend at the premium applicable to their highest WTC Position first. If a dominant WTC Position is above 90%, the position holder must lend at level a sufficient number of Lots to bring their position below 90% before they may lend at a premium of 0.25% of the cash price. Similarly, they must lend at a premium of no more than 0.25% of the cash price a sufficient number of Lots to bring their position below 80% before they may lend at a premium of 0.5% of the cash price. The position holder must have reduced their position below 50% before the position holder may lend at a premium greater than those specified by the [Tom-Next](#) Lending Rules.

~~46-47.~~ The LME provides three venues for trading: in the Ring, on LME Select and the inter-office venue. A dominant position holder should be prepared to respond to requests for borrowing in both the Ring or on LME Select. Once a dominant position holder has received Lending instructions from Market Surveillance, they must be prepared to respond to bids in LME Select at 09:00:00, in the event the dominant position holder's obligation has not been met before the start of the first Ring session they must also be prepared to respond to bids in the Ring. A dominant position holder is not obliged to verify whether the borrower is borrowing to cover an existing short position. However, the purpose of the [Tom-Next](#) Lending Rules is to address the effect of a Member or non-Member's dominant position on short position holders. It would be an abuse of the [Tom-Next](#) Lending Rules for a dominant position holder to contrive to lend to another person at the specified premium with the intention that the borrower could then lend in the market at a higher premium.

Lending on LME Select

~~47-48.~~ A bid on LME Select is a request to the market. A dominant position holder must respond to bids on LME Select where those bids reach the premium at which the dominant position holder must be prepared to lend. The mechanisms for ensuring orderly trading on LME Select mean that a lower offer entered into the system will trade with an existing higher bid. If there is a bid in LME Select that is at a higher



premium than that prescribed by the Tom-Next Lending Rules, a dominant position holder must trade with that bid to adjust the price back to the correct premium. This adjustment must be undertaken through LMEsmart. If the circumstances suggest that bids for tom-next borrowing on LME Select will be higher than the backwardation premiums at which the dominant position holder will be obliged to lend, the dominant position holder should behave prudently and consider placing offers on LME Select to anticipate bidding. This will avoid the need for adjustment trades.

48-49. If the dominant position holder does not have direct access to the LME's electronic order book, it must make arrangements with its broker to take the necessary steps to respond to bids on LME Select on its behalf and to make adjustments where necessary.

Lending in the Ring

49-50. A bid in the Ring is also a request to the market. The first Ring session for each metal is the last opportunity to lend or borrow tom-next by open outcry. A dominant position holder who has not reduced their WTC Position below 50% by the start of the first Ring session must respond to bids in the Ring where those bids reach the premium at which the dominant position holder must be prepared to lend.

50-51. The mechanisms for ensuring orderly trading in the Ring mean that once a bid to borrow has been made, a lender must either accept that bid or make a higher offer. It is a breach of Regulation 11 of Part 3 of the LME Rulebook to make an offer that is lower than a prevailing bid. If a dominant position holder's WTC Position remains at 50% or above by the start of the first Ring session, it must ensure that it responds to bids and that any lending is at a premium no higher than the premium prescribed by the Tom-Next Lending Rules. In order to ensure this and to abide by the Ring Trading Regulations, it may be necessary for the dominant position holder to offer to lend. If the circumstances suggest that tom-next trading in the Ring is likely to start at a higher premium, the dominant position holder should be prepared to open the Ring session with an offer before any bid is made.

51-52. If a dominant position holder is not a Category 1 Member, it must make arrangements in good time for a Category 1 Member to effect the necessary lending on its behalf.

Brokers instructed by Clients

52-53. There are a number of considerations that a Member must take into account when acting for a Client who is deemed to be a dominant position holder. In particular, the Member must ensure that its actions comply with all applicable FCA rules, including the FCA Code of Market Conduct.

Front Month Lending Rules

54. The Front Month Lending Rules apply to a Member's or Client's Cumulative Spot Futures Position, relative to Total Available Stock, in deliverable Aluminium, Copper, Nickel, Lead, Tin, and Zinc contracts.

55. A Cumulative Spot Futures Position is the total of a Member's or Client's aggregated Futures Contracts (including, in relation to Options Contracts, the delta adjusted equivalent futures positions) across each individual Prompt Date and expiry up to and including the next 3rd Wednesday Prompt Date which is not the next available Prompt Date ("M1"). As such, when a 3rd Wednesday Future becomes the tom contract, then M1 (and thus the Cumulative Spot Futures Position) refers to the following 3rd Wednesday Future).

56. In determining the application of the Front Month Lending Rules, the LME will aggregate positions across all LME Clearing Members holding positions for the relevant legal entity and any related group companies (unless the relevant entity can demonstrate to the satisfaction of the LME that the positions are entirely independent and unrelated).

57. Where a Member holds an offsetting OTC Position, they may apply to the LME for an exemption for this position such that the number of lots held OTC can be discounted from their Cumulative Spot Futures Position for the purposes of the calculations pursuant to the relevant Front Month Lending Rules. The LME may grant this exemption at its absolute discretion, taking into account any factors it deems relevant including the counterparty to, size, and purpose of the relevant OTC positions. Any Member wishing to apply for this exemption should contact market.surveillance@lme.com prior to 18:00 on the Wednesday



before the 3rd Wednesday prior to the position being taken into account in the Cumulative Spot Futures Position.

58. Positions are calculated using CPR data reported at 08:30 on the relevant business date. Stock data is as published at 09:00 on the relevant business date.
59. In the event that a Member or Client holds a Cumulative Spot Futures Position that is in excess of the Total Available Stock, the Member or Client will be considered a dominant holder under the Front Month Lending Rules.
60. For the purpose of calculating obligations under the Front Month Lending Rules, the “Total Available Stock” refers to the Total LME Stock¹ not held by the dominant holder. For the purpose of this rule, “held” includes any position for which the relevant Member or Client is the Effective Controller.
61. The dominant holder will be required to make liquidity available by offering to lend M1 to the following 3rd Wednesday Prompt Date (“M2”) for their Cumulative Spot Futures Position that is in excess of the Total Available Stock (the “Excess Position”).

$$\textit{Excess Position} = \textit{Cumulative Spot Futures Position} - \textit{Total Available Stock}$$

62. If, at 09:00 the bid for the M1-M2 carry is **no greater than** level, then the dominant holder (whether an existing dominant holder or a dominant holder due to an update in Total Available Stock) should, without delay, offer to lend M1-M2 at a price no greater than level, and should continue to offer to lend at level until such a time that they do not have an Excess Position.
63. If, at 09:00 the bid for the M1-M2 carry is **greater than** level, then the dominant holder should between 09:00 and 13:30 reduce their Excess Position in an orderly manner, such that that by 13:30 at the latest they either no longer have an Excess Position, or they are offering to lend the M1-M2 carry at level, after which they should continue to offer the M1-M2 carry at level until such time that they do not have an Excess Position.
64. In line with the above, by 13:30, a dominant holder is required to have lent their Excess Position or to be offering to lend M1-M2 at level should they still hold an Excess Position. After 13:30, should the dominant holder lend an Excess Position at a price greater than level, then such transactions will be price adjusted to level.

How to Comply with the Front Month Lending Rules

65. The offer to lend to the market the Excess Position by the dominant holder must be active at all times during LME Select opening hours. This means that the relevant order(s) must persist on the LME Select order book until all required volume has been fulfilled.
66. If the dominant holder lends this volume via broker(s), this lending must take place on LME Select in an agency capacity with no markup or commission built into price (i.e. the price of the lend order must be level).
67. No Member or Client shall, at any time, increase their Cumulative Spot Futures Position should this result in them taking an Excess Position or increasing an existing Excess Position.
68. It is the responsibility of the dominant holder to ensure that they are compliant with the Front Month Lending Rules at all times. Members shall take all reasonable steps to procure that their Clients comply with the Front Month Lending Rules.
69. Where the dominant holder is a Client, the LME will instruct them directly. If this Client has not responded to the LME within a reasonable timeframe as determined by the LME in its absolute discretion or fails to comply with the LME's instructions, the LME may instruct any/all of their Clearing Member(s) to carry out

¹ As per paragraph 36, Total LME Stock in each metal is the sum of Live Warrants and cancelled Warrants.



the instructions on their behalf, and in doing so, may disclose to the Clearing Member(s) concerned that the Client is a dominant holder. In these circumstances, the relevant Client will be deemed to have waived all confidentiality regarding their position as a dominant holder for the purpose of the instructions. All parties are reminded that this information is market sensitive and should be treated as such.

Minimum Total Stock Thresholds

70. The following minimum Total LME Stock thresholds will be used in the calculation of the Excess Position under the Front Month Lending Rules. As such, if the Total LME Stock falls to (or below) these levels, a dominant holder will not be required to reduce their total position (including warrants and their Cumulative Spot Futures Position) below this threshold.

<u>Metal</u>	<u>Minimum Threshold</u>
<u>Aluminium</u>	<u>6,400 Lots</u>
<u>Copper</u>	<u>3,200 Lots</u>
<u>Lead</u>	<u>2,400 Lots</u>
<u>Nickel</u>	<u>1,600 Lots</u>
<u>Tin</u>	<u>200 Lots</u>
<u>Zinc</u>	<u>2,400 Lots</u>

Reporting of Financing Arrangements

71. Members are required to inform the LME of financing arrangements to which the Member is a party and whether they or their Clients do not hold but have effective control over Warrants. Members must notify the LME by completing the template form attached at Schedule 1 and sending it to Market Surveillance at market.surveillance@lme.com before or at the start of the financing arrangement. The Member must also notify Market Surveillance by email when the financing arrangement ends or when it has been amended.

Accountability Levels

53-72. As noted above, the LME continuously undertakes surveillance on all positions held on the market and where relevant the Lending Rules set out specific actions that would be taken in particular circumstances. However, the LME considers it appropriate to have arrangements in place for the provision of additional information, when requested by the LME, for positions that are above certain levels (which shall be referred to as the "Accountability Levels"), even where such positions do not trigger the application of the Lending Rules. The request to provide additional information will be made to the Member who is holding a position, either directly or on behalf of their Client(s), which is in excess of the relevant Accountability Level. In calculating whether a position is in excess of the relevant Accountability Level, the LME may take into account positions in over-the-counter contracts subject to reporting under Regulation 24 of Part 2 of the Rules ("OTC positions"). In this respect, the LME may, at its discretion, elect to consider OTC positions separately to on-Exchange positions, or net them together, for the purposes of determining if the position is in breach of the Accountability Level threshold.

54-73. For the avoidance of doubt, Members and their Client(s) may (unless directed otherwise) hold positions that are in excess of the Accountability Level.

55-74. The LME will publish Accountability Levels for positions held on single Prompt Dates and also positions held across all Prompt Dates (referred to as the "Single Prompt Accountability Levels" and the "All Prompt Accountability Levels" respectively).

56-75. If a position exceeds as described either the Single Prompt Accountability Level and/or the All Prompt Accountability Level then the LME may require further information as to the nature and purpose of the



position of that account (or, if appropriate, linked accounts as determined by the LME or OTC positions taken into account), and may direct that Members cannot accept further orders that increase the position, or direct that the position be reduced to a level below the Accountability Level. The Member shall comply with such directions, or procure that its Client comply with such directions.

~~57-76.~~ The current Accountability Levels are set out at Schedule 2. The LME reserves the right to amend these levels, and the LME will advise of any updates in writing. In addition, Accountability Levels for other LME contracts may be introduced from time to time, as advised by the LME in writing. The Single Prompt Accountability Levels shall be calculated for each Member or Client (as relevant) on a net basis in respect of each relevant Prompt Date. The All Prompt Accountability Level shall be calculated for each Member or Client (as relevant) on a net basis in respect of all relevant Prompt Dates.

~~58-77.~~ The Accountability Levels shall apply to any Member and/or Client trading the contracts set out in Schedule 2, and will apply to positions held at the end of day. Members shall be responsible for compliance with the Accountability Levels and for ensuring compliance by their Client(s) with the Accountability Levels.

~~59-78.~~ Upon request, Members are required to provide all relevant information relating to the position to the LME. Where appropriate, Members may encourage their Clients to provide all relevant information directly to the LME, and in such cases the Member will have been deemed to have responded to the LME's original request for additional information. The LME is aware that the information provided may include commercially sensitive information and therefore will be held in confidence in accordance with the provisions of Part 2 of the LME Rulebook.

~~60-79.~~ As with the publication of position information and the Lending Rules, in calculating the total positions of two or more entities acting in concert for the purposes of the Accountability Levels, the LME shall aggregate the positions of a client across all Members. Likewise, the LME shall aggregate the positions of a Member or client and such entity's related group companies unless the entity can demonstrate that the positions were independent. The LME will also aggregate the positions of unconnected parties if the LME believes that there is a common purpose between such parties. In such cases the LME will inform the parties either directly or through the Members with whom they trade.

Position Limits

~~61-80.~~ The Lending Rules apply to all products on which Warrants are issued and where stock figures are published by the LME. However, the LME makes available for trading other products where no stock figures are available. In these instances, the LME may operate a Position Limit regime.

~~62-81.~~ The Position Limits published by the LME apply to all Prompt Dates, and are triggered when the net position held exceeds the relevant Position Limit. Where a position exceeds the relevant Position Limit, the LME may request further information regarding the position of that account or linked accounts, and the LME may also give directions to the Member in respect of the position of that account or linked accounts.

~~63-82.~~ The current Position Limits are set out at Schedule 3. The LME reserves the right to amend these Position Limits, and the LME will advise of any updates in writing. In addition, Position Limits for other Contracts may be introduced from time to time, as advised by the LME in writing.

~~64-83.~~ When requested by the LME, Members must provide the LME with certain information relating to a position. Members may encourage their Clients to provide all relevant information directly to the LME, and in such cases the Member will be deemed to have responded to the LME's original request for information. The LME may also contact the position holder directly to obtain further information. The LME is aware that the information provided may include commercially sensitive information. Such information will be held in confidence in accordance with the provisions of Part 2 of the LME Rulebook.



Enforcement of Position Management Arrangements

~~65-84.~~ Regulation 17 of Part 3 (Emergencies) of the LME Rulebook sets out the powers of the Special Committee in the event that it has cause to suspect the existence of or to anticipate the development or likely development of an undesirable situation or undesirable or improper trading practice which in its opinion has affected or is likely to affect the market.

~~66-85.~~ For the avoidance of doubt, the Special Committee may, in its absolute discretion, take such steps as it deems appropriate to contain or rectify the situation. This may include, without limitation, a direction to reduce a position to below the relevant Accountability Level and/or Position Limit. Further, a direction to reduce a position may be issued even where the position is already below the relevant Accountability Level and/or Position Limit.

~~67-86.~~ Any Member contravening or failing to comply with any direction or instruction issued by the Special Committee will be considered to be in breach of the LME Rulebook.

~~68-87.~~ Members with queries regarding this policy should contact Market Surveillance at market-surveillance@lme.com



Amendment and Change History

Version	Author	Revisions
January 2025	Market Surveillance	Update to Accountability Levels.
May 2025	Market Surveillance	Update to Accountability Levels
<u>June 2025</u>	<u>Market Surveillance</u>	<u>Introduction of the Front Month Lending Rules</u>

Schedule 1

Reporting of Warrant Financing Arrangements (in Excel or CSV format)

Column No.	Column Name	Description	Mandatory (M) Optional (O) Conditional (C)	Data Type	Sample Data
1	Member Mnemonic	The 3 letter code assigned to the Member submitting the financing arrangement	M	CHAR-3	'XXX' 'YYY'
2	Warrant Holder	The entity in possession of the Warrants under the financing arrangement. Note this does not necessarily have to be the Member, or the Effective Controller, it could be a client of the Member who is financing Warrants for a third party.	M	ALPHANUM-256	'ABC TRADING LTD' 'JOHN SMITH'
3	Effective Controller	The entity, or natural person, that maintains effective control of the Warrants under the financing arrangement. See paragraphs 22 and 23 for further details.	M	ALPHANUM-256	'ABC TRADING LTD' 'JOHN SMITH'
4	MiFID short code	The MiFID short code that corresponds to the Effective Controller.	M	INTEGER	'123456789'
5	Start Date	The date at which the financing arrangement began.	M	ISO 8601 extended format YYYY-MM-DD	2019-03-01
6	End Date	The date at which the financing arrangement is expected to end.	O	ISO 8601 extended format YYYY-MM-DD	2019-03-01
7	Metal	2 letter code identifying the metal	M	CHAR-2	'AH' – Aluminium 'CA' – Copper
8	Number of Warrants	Number of Warrants held under the financing arrangement	M	INTEGER	'150'
9	Additional Comments	Any additional details the Member deems relevant to the LME with respect to the financing arrangement in place.	O	ALPHANUM-256	



Schedule 2

Accountability Levels

Contract Code	Single Prompt Accountability Level (Lots)	All Prompt Accountability Level (Lots)
AH	16,000	16,000
CA	8,000	8,000
NI	6,000	6,000
PB	4,000	4,000
SN	500	500
ZS	6,000	6,000



Schedule 3

Position Limits (Lots)

Contract Code	Position Limits (Lots)
AN (US Midwest)	2,500
AS (South-East Asia)	2,500
AE (East Asia)	2,500
AW (West Europe)	2,500