

To: All Members and other interested parties

Ref: 17/414 (LME Notice)
17-060 (LMEC Notice)

Classification: Trading Fees

Date: 22 December 2017

Subject: **NEW FERROUS LIQUIDITY PROVIDER PROGRAMME**

Summary

1. This Notice announces the launch of the new liquidity provider programme (the “**New Ferrous LP Programme**”) for the LME Steel Scrap and LME Steel Rebar contracts (the “**Ferrous Contracts**”), which will replace the current market making programmes for the Ferrous Contracts (the “**Current MM Programmes**”), on 1 January 2018.

Background

2. The Ferrous Contracts were launched on 23 November 2015 and, as communicated to LME Members in Notice 15/263 : A256 issued on 20 August 2015 (the “Original Incentive Programmes Notice”), it was the Exchange’s intention at that time to enhance participation and liquidity in the Ferrous Contracts by the introduction of certain incentive programmes when launched. The Current MM Programmes were announced in Notice 16/389 : A382 issued on 15 December 2016. The Current MM Programmes will expire on 31 December 2017.
3. This Notice announces the launch of the New Ferrous LP Programme and includes details of the relevant eligibility criteria for participation, the commencement date, the relevant incentives and how these are calculated, the application process and certain other information. For the avoidance of doubt, the New Ferrous LP Programme will adopt a different commercial structure to the Current MM Programmes and prospective participants in the New Ferrous LP Programme are encouraged to consider the applicable requirements carefully.
4. The Ferrous Contracts have experienced a significant increase in trading volumes and open interest. As at the date of this Notice, total traded volume is approximately 3,550,000 metric tonnes for LME Steel Scrap and 730,000 metric tonnes for LME Steel Rebar. The Current MM Programmes have been instrumental in the successful launch of the Ferrous Contracts, providing tradeable quotes that often surpass the criteria to which market makers had originally agreed.



5. The terms and conditions of the New Ferrous LP Programme are detailed in this Notice.
6. For the avoidance of doubt, participation in the New Ferrous LP Programme shall not constitute pursuit of a Market Making Strategy for the purposes of MiFID II and consequently, participants in the New Ferrous LP Programme shall be required to adhere to the terms and conditions set out in this Notice, but shall not be required to execute the MiFID II Market Making Agreement (which is the subject of Notice 17/355).

Defined Terms

7. Terms not otherwise defined in this Notice shall have the meanings ascribed to them in the Rules and Regulations of the LME (the “LME Rules”).

New Ferrous LP Programme

8. The Current MM Programmes will expire on 31 December 2017 and shall not be renewed. Pursuant to this Notice, the Exchange will launch the New Ferrous LP Programme on 1 January 2018. The New Ferrous LP Programme will terminate on 31 December 2018.
9. The Exchange invites market makers in the Current MM Programmes and prospective new participants to submit applications for the New Ferrous LP Programme.
10. For the avoidance of doubt, market makers in the Current MM Programmes shall receive no further rebates or stipends for their quoting activities after 31 December 2017. They will receive payments under the New Ferrous LP Programme only if they are appointed as a participant in the New Ferrous LP Programme (“Liquidity Provider”) pursuant to this Notice on or after 1 January 2018.
11. Members or their Clients are eligible to apply to become Liquidity Providers. Interested parties are requested to submit their applications in respect of the Ferrous Contracts and if they meet the eligibility criteria set out in paragraphs 13 to 15 below (“Eligibility Criteria”), they will be appointed in accordance with the process set out in paragraphs 29 to 36 below. The Exchange will consider all Liquidity Provider applications promptly.
12. Any interested parties will be able to apply to the Exchange at any point in time from the publication of this Notice until 15 November 2018. The Exchange must receive applications by the fifteenth day of the month in order to begin participating in the New Ferrous LP Programme from the first day of the following month. In order to participate in the New Ferrous LP Programme from 1 January 2018, applications must be received by the Exchange by 29 December 2017, as set out further in paragraph 32.



Eligibility Criteria for participation in the New Ferrous LP Programme

13. In order to participate in the New Ferrous LP Programme, each prospective Liquidity Provider must meet the Eligibility Criteria set out below:
- (a) technical and operational ability to meet the LP Obligations;
 - (b) knowledge of the ferrous industry; and
 - (c) previous trading activity in derivative contracts.
14. By submitting an application to the Exchange for participation in the New Ferrous LP Programme, the applicant warrants that it meets the Eligibility Criteria. Where a Member submits an application on behalf of a Client that wishes to participate in the New Ferrous LP Programme, the Member warrants that it has obtained confirmation from the Client on whose behalf the Member is submitting the application, that the Client meets the Eligibility Criteria.
15. As part of the application process, the Exchange may, in its sole discretion, require evidence of an applicant's ability to meet the Eligibility Criteria.

LP Obligations

16. Expected obligations for Liquidity Providers are as follows (“**LP Obligations**”):

	Obligations		Notes
Contracts	LME Steel Scrap	LME Steel Rebar	N/A
Prompts and lots per side	M1 to M7 (inclusive) – 5 lots per side M8 to M14 (inclusive) – 1 lot per side (must provide quotes in each month)	M1 to M7 (inclusive) – 5 lots per side M8 to M14 (inclusive) – 1 lot per side (must provide quotes in each month)	Larger lot sizes can be quoted, but must be broadly symmetrical in size.
Bid offer spread	Within \$10	Within \$10	Staggered quotes will be permitted, but the total required number of lots must be within the stated bid offer spread.
Quoting hours	1am-7pm London time	1am-7pm London time	N/A
Required presence	Minimum of 9 hours	Minimum of 9 hours	N/A

Further detail on how the LP Obligations will be taken into account in the calculation of fee rebates is set out in paragraphs 17 and 18 below, and detail on how the LP Obligations will be taken into account in the calculation of liquidity pool payments is set out in paragraphs 19 to 26 below.



Incentives for the New Ferrous LP Programme

Fee Rebates

17. Liquidity Providers will be eligible for trading and clearing fee rebates where they have met at least 50% of the LP Obligations on an aggregate basis. For the avoidance of doubt, in order to determine whether a Liquidity Provider has met 50% of the LP Obligations for these purposes, the LME will separately calculate the percentage of the LP Obligations that each Liquidity Provider has met in relation to the LME Steel Scrap Contracts and the LME Steel Rebar Contracts, then average the two figures. The average figure must equate to 50% or more in order for the Liquidity Provider to be eligible for fee rebates.
18. The fee rebates under the New Ferrous LP Programme apply to trading on LMEselect and on the telephone market. As set out in paragraph 104 of the Original Incentive Programmes Notice, this allows Liquidity Providers to hedge positions accrued, while fulfilling the LP Obligations in the same or other Exchange Execution Venues.

Liquidity Pool

19. Liquidity Providers may also have access to a liquidity pool of US\$36,000 per month (the “Liquidity Pool”), subject to meeting the conditions set out in paragraph 20 below.
20. In order to be eligible for a share of the Liquidity Pool, Liquidity Providers must meet:
- (a) at least 50% of the LP Obligations (calculated on the same basis as set out in paragraph 17 above in relation to the fee rebate calculation); and
 - (b) the applicable volume threshold (the “Liquidity Pool Threshold”) of total Liquidity Provider volume where Liquidity Provider volume shall comprise passive quotes (i.e. resting bids and offers in the electronic central order book, LMEselect) traded for the Liquidity Provider’s own account, and which have been aggressed by market participants that are not (at the point of execution) Liquidity Providers (“Total Qualifying LP Volume”):

# of Liquidity Providers	Applicable Liquidity Pool Threshold
0-5 Liquidity Providers	20% of Qualifying LP Volume
6-10 Liquidity Providers	15% of Qualifying LP Volume
10+ Liquidity Providers	10% of Qualifying LP Volume

21. For the avoidance of doubt, and as set out above, the Applicable Liquidity Pool Threshold shall vary depending on the number Liquidity Providers.



22. Liquidity Pool payments will be calculated as follows:

- (a) the percentage of Total Qualifying LP Volume that is attributable to the relevant Liquidity Provider

divided by:

- (b) the Total Qualifying LP Volume figure, being the sum of the percentage of Total Qualifying LP Volume of each Liquidity Provider that has met the applicable Liquidity Pool Threshold and at least 50% of the LP Obligations

multiplied by:

- (c) the monthly Liquidity Pool amount set out in paragraph 19

further multiplied by:

- (d) the percentage of LP Obligations that the Liquidity Provider has achieved.

23. In relation to paragraph 22(d) above, and for the avoidance of doubt, where a Liquidity Provider has met all of the LP Obligations, they shall be eligible for 100% of the maximum Liquidity Pool share available to them.

24. Where a Liquidity Provider achieved at least 50% of the LP Obligations, but has not achieved 100% of the LP Obligations, the available Liquidity Pool payment will be reduced proportionately. Adjustments may be made at the discretion of the Exchange.

25. For example, the Exchange calculates that over the course of one calendar month, Firm A met the LP Obligations for on average 6 hours per day out of the 9 “required presence” hours. It also met the Applicable Liquidity Pool Threshold (which, in this example, is 20%). Firm A has therefore been present for only 75% of the “required presence” and consequently, it will receive only 75% of the Liquidity Pool payment that otherwise would have been due to Firm A for that particular month had it met 100% of its LP Obligations. Please see the worked examples set out in Appendix 1, which are non-exhaustive and provided for illustrative purposes only.

26. Notwithstanding the prorated calculation described in paragraph 25 above, all Liquidity Pool payments shall be capped at a maximum of two thirds of the total Liquidity Pool (i.e. US\$24,000).

Incentive payments

27. Further details of how these incentives will be paid are set out in paragraphs 37 to 42 below. The LME & LME Clear fee schedule published in Appendix 1 to LME Notice 17/402 / LME Clear Notice 17-057 dated 18 December 2017 will be



updated on 1 January 2018 to reflect the availability of the New Ferrous LP Programme.

The Exchange's right to review the New Ferrous LP Programme

28. The Exchange reserves the right to review and revise the New Ferrous LP Programme every three months, or more frequently if required. The Exchange also reserves the right to terminate the New Ferrous LP Programme or deselect any of the Liquidity Providers appointed for the New Ferrous LP Programme, with or without notice, if it deems it is in the best interests of the market to do so.

Application process for the New Ferrous LP Programme

29. All interested Members or Clients, including participants in the Current MM Programmes, are eligible to submit applications for the New Ferrous LP Programme.

30. The application form for the New Ferrous LP Programme will be made available on the Exchange website and can be requested from the Exchange Product Development team by email at ferrous@lme.com.

31. The Member shall complete the application form for the New Ferrous LP Programme and provide all relevant information which the Exchange shall require in respect of the Member Liquidity Provider or the relevant Client Liquidity Provider, as appropriate. It is the responsibility of the Member to ensure that all information included on the application form is complete and correct. Incorrect information will affect, and possibly lengthen, the application process and could affect payments under the relevant programme. The provision of false or misleading information may lead to disciplinary action under the LME Rules.

32. Interested parties are invited to submit their applications to the Exchange Product Development team at ferrous@lme.com before 29 December 2017 to ensure the timely processing of applications before the start date of 1 January 2018.

33. Alternatively, interested parties may submit their applications at any time until 15 November 2018.

34. Applications can be submitted on behalf of a sole legal entity or on behalf of several companies provided they are all within the same corporate group (the "Group")¹. Any interested party that is not a Member of the Exchange must submit their applications through a Member.

¹ "Group" includes any holding company or subsidiary company of a company; any company which is a subsidiary company of any holding company of that company. The expressions holding company and subsidiary company shall have the meanings assigned to them by Section 1159 of the Companies Act 2006.



35. Subject to the regulatory requirements applying to the Exchange, acceptance of the Liquidity Providers into the New Ferrous LP Programme will be at the absolute discretion of the Exchange and the Exchange retains the right to select or decline any Member or Client into the New Ferrous LP Programme.
36. The Exchange will notify the market by way of publication on the Exchange website and via Notice once the successful applicants have been appointed for the New Ferrous LP Programme. The names of successful applicants will be disclosed on the Exchange website and via Notice.

Payment process

37. Liquidity Providers (or in cases where the Liquidity Provider is a Client, the Liquidity Provider's specified Member) will be eligible to receive a full rebate of all trading and clearing fees charged by the Exchange for the Ferrous Contracts resulting from the Liquidity Provider's activities under the New Ferrous LP Programme, together with, where applicable, the relevant payment from the Liquidity Pool.
38. The Exchange shall be under no obligation to correct any underpayment of fee rebates resulting from any inaccurate information provided on the application form.
39. The Exchange shall use a FIX key, issued to the market makers, alongside an LMEselect FIX tag 58 to track Liquidity Providers' trading volumes. Users must ensure that both the FIX key and the FIX tag 58 client code used for order entry match the client code on the application exactly. Traded volume transacted through a different FIX key and FIX tag 58 will not be eligible for rebates nor will they be deemed to contribute to the Liquidity Provider's trading obligations.
40. Rebates and Liquidity Pool payments (where applicable) will be credited to Members two months in arrears for the New Ferrous LP Programme. For example, Liquidity Provider activities conducted in January will be calculated in February and credited in March.
41. Under the New Ferrous LP Programme, the Exchange will not calculate rebates in respect of Client Liquidity Providers who trade through multiple Members. The application form will require that each Client appointed to participate in the New Ferrous LP Programme identifies a single Member through which it will undertake Liquidity Provider activities for the purposes of this Programme. Whilst the Client will be free to trade on the Exchange generally through any Member, only Liquidity Provider trades initiated by the Client through the Member identified on the application form (or such other Member as notified by the Client to the Exchange from time to time) will qualify for the relevant rebates and will be included when calculating the extent to which it has fulfilled its LP Obligations.
42. Where a single Category 1 Member or Category 2 Member has multiple Liquidity Provider Clients, the Exchange will provide the Member with a breakdown of the



relevant rebates and Liquidity Pool payments (as applicable), itemised per FIX Tag 58 Liquidity Provider keys.

Requirements for trading on the Exchange

43. Members must have the ability to add multiple FIX tag 58 client codes to their pre-trade risk management system.
44. Where a Liquidity Provider has applied on behalf of itself and its Group entities, the Exchange will aggregate traded volumes executed for that Group of companies. The Exchange will only aggregate trades executed by companies previously notified to the Exchange as being within the same Group as the Liquidity Provider.
45. When Liquidity Providers trade, they will be allowed a grace period of sixty seconds to re-enter the required bid or offer, to ensure that they are maintaining their bid-offer spread, notwithstanding that the Liquidity Provider has entered into a trade with another market participant.
46. If a Liquidity Provider proposes making changes to the details it originally provided in its application, the Member should note that the Exchange will need at least two weeks before such changes are acknowledged and processed by the Exchange. Any such changes will have to be reviewed and approved by the Exchange. Members and Clients should note this may delay the payment of rebates and stipends by the Exchange.

Rules

47. The New Ferrous LP Programme shall be subject to the terms and conditions set out in the LME Rules, including without limitation Regulation 17 of Part 2 of the LME Rules.

Limits, term and termination

48. The Exchange reserves the right to limit the number of participants in the New Ferrous LP Programme or include other such limits, restrictions, conditions or clarifications as it may specify by Notice from time to time.
49. The New Ferrous LP Programme will commence on 1 January 2018 and terminate on 31 December 2018.
50. Without prejudice to the above paragraph, the Exchange reserves the right to alter, restrict, suspend or terminate the New Ferrous LP Programme at any time by Notice.



No direct relationship between the Exchange and Client

51. The benefits under the New Ferrous LP Programme are made available by the Exchange to the relevant Member. It is the responsibility of the Member and the relevant Client to determine between them the basis and extent to which any benefits under this programme may be passed on to the relevant Client. The Exchange has no responsibility to any Client for any passing on of such benefits by the Member. In the event that any Client does not receive the benefit of any rebate or stipend made available by the Exchange to a Member, this is solely a matter between the Member and the relevant Client and no party shall have any claim or right of recourse against the Exchange.

Questions

52. Members or other interested parties with any questions in respect of the New Ferrous LP Programme are invited to contact the Exchange Product Development team by email at ferrous@lme.com.

Oscar Wehtje
Head of Product Development

cc: Board directors
Steel Committee



Appendix 1

Worked Examples of Rebate Payments

The following worked calculations are provided for illustrative purposes only, and set out a non-exhaustive list of examples showing how rebate and Liquidity Pool entitlements will be calculated by the Exchange.

Scenarios	Percentage of obligations met by relevant Liquidity Provider	Percentage of rebate on trading and clearing fees
A	100% in Steel Scrap and 100% in Steel Rebar	100% $((100+100)/2)$
B	90% in Steel Scrap and 70% in Steel Rebar	80% $((90+70)/2)$
C	45% in Steel Scrap and 80% in Steel Rebar	62.5% $((45+80)/2)$
D	55% in Steel Scrap and 20% in Steel Rebar	0% $((55+20)/2 < 50\%$ therefore 0)



Worked Examples of Liquidity Pool Payments

The following worked calculations are provided for illustrative purposes only, and set out a non-exhaustive list of examples showing how rebate and Liquidity Pool entitlements will be calculated by the Exchange.

Key Shared Assumptions:

Liquidity Pool	\$36,000
Number of Liquidity Providers	5
Liquidity Pool Threshold	>20%
Liquidity cap for any individual Liquidity Provider	2/3rds of Liquidity Pool

Scenario 1

Five Liquidity Providers, of which only three (LP1, LP2 and LP3) performed above the Liquidity Pool Threshold. LP3 does not meet the minimum requirement of at least 50% of the LP Obligations and is therefore excluded from the Liquidity Pool calculations. LP2 does not meet 100% of the required spread and quantity LP Obligations.

	Percentage of LP Obligations met	Share of Total Qualifying LP Volume	Share of Liquidity Pool	Maximum payable	Final payment
LP1	100.0%	35.0%	58.3% (35/60)	\$ 21,000 (0.583*36000)	\$ 21,000
LP2	85.0%	25.0%	41.7% (25/60)	\$ 15,000 (0.417*36000)	\$ 12,750 (15000*0.85)
LP3	40.0%	20.0%	0.0%	\$ -	\$ -
LP4	100.0%	10.0%	0.0%	\$ -	\$ -
LP5	100.0%	10.0%	0.0%	\$ -	\$ -
Total		100%	100%	\$ 36,000	\$ 33,750

Since they are the only two Liquidity Providers that have met the 20% Liquidity Pool Threshold and the minimum requirement of at least 50% of the LP Obligations, LP1 and LP2 have the potential to share 100% of the Liquidity Pool in line with their respective shares of the total eligible Liquidity Provider volume. LP3 has met the 20% Liquidity Pool Threshold, but does not meet the minimum requirement of at least 50% of the LP Obligations and is therefore excluded from the Liquidity Pool calculations. LP1 has met 100% of its LP Obligations, therefore will be paid 100% of



the maximum share payable of the Liquidity Pool. On the other hand, LP2 has not met 100% of their LP Obligations. LP2 will receive a pro-rata payment on the basis 85% of the LP Obligations met. The other three Liquidity Providers (LP3, LP4 and LP5) will receive no payment.

Scenario 2

Five Liquidity Providers, of which only one (LP1) performed above the Liquidity Pool Threshold and the minimum requirement of at least 50% of the LP Obligations. However, LP1 does not meet 100% of the required spread and quantity LP Obligations.

	Percentage of LP Obligations met	Share of Total Qualifying LP Volume	Share of Liquidity Pool	Maximum payable	Final payment
LP1	50.0%	80.0%	100.0%, but capped at 66% (80/80)	\$ 24,000 (0.66*36000)	\$ 12,000 (24000*0.5)
LP2	100.0%	10.0%	0.0%	\$ -	\$ -
LP3	100.0%	5.0%	0.0%	\$ -	\$ -
LP4	100.0%	5.0%	0.0%	\$ -	\$ -
LP5	100.0%	0.0%	0.0%	\$ -	\$ -
Total		100%	100%	\$ 24,000	\$ 12,000

Since LP1 is the only Liquidity Provider that has met the 20% Liquidity Pool Threshold and the minimum requirement of at least 50% of the required spread and quantity LP Obligations, it has the potential to receive up to two thirds of the Liquidity Pool as set out in paragraph 26 of this Notice, which equals \$24,000. However, since LP1 has met only 50% of its LP Obligations it will be paid 50% of the maximum amount payable, which equals to \$12,000. The other four Liquidity Providers (i.e. LP2, LP3, LP4 and LP5) will receive no payment.



Scenario 3

Five Liquidity Providers, of which only two (LP1 and LP2) performed above the Liquidity Pool Threshold and the minimum requirement of at least 50% of the required spread and quantity LP Obligations. Both of them meet 100% of the required LP Obligations.

	Percentage of LP Obligations met	Share of Total Qualifying LP Volume	Share of Liquidity Pool	Maximum payable	Final payment
LP1	100.0%	65.0%	76.5%, but capped at 66% (65/85)	\$ 24,000 (0.66*36000)	\$ 24,000 (24000*1)
LP2	100.0%	20.0%	23.5% (20/85)	\$ 8,470 (0.235*36000)	\$ 8,470 (8470*1)
LP3	100.0%	5.0%	0.0%	\$ -	\$ -
LP4	100.0%	5.0%	0.0%	\$ -	\$ -
LP5	100.0%	5.0%	0.0%	\$ -	\$ -
Total		100%	100%	\$ 32,470	\$ 32,470

Since LP1 and LP2 are the only two Liquidity Providers that have met the 20% Liquidity Pool Threshold and the minimum requirement of at least 50% of the LP Obligations, LP1 and LP2 have the potential to share 100% of the Liquidity Pool in line with their share of eligible Liquidity Provider volumes. However, LP1's potential maximum amount payable would be greater than 66.6%, therefore its potential maximum payable will be capped at two thirds of the Liquidity Pool. Since both LP1 and LP2 have met 100% of their LP Obligations they will be both paid 100% of their maximum payable. The other three Liquidity Providers (i.e. LP3, LP4 and LP5) will receive no payment.