

## INCENTIVE PROGRAMME SPECIFICATIONS

### 2019 Ferrous Liquidity Provider (“2019 Ferrous LP”) programme

1. This programme is governed by the General Terms of the LME incentive programmes. This document can be obtained on the LME website or from the Sales team at [sales@lme.com](mailto:sales@lme.com).
2. Capitalised terms not otherwise defined in this Specification shall have the meaning ascribed to them in the General Terms of the LME incentive programmes.

### Eligibility Criteria

3. To be eligible for the 2019 Ferrous LP programme, a Participant:
  - i. Must be a Member, Client or Indirect Client; and
  - ii. Must, in the opinion of the LME, have the experience, technical and operational ability to meet the LP Obligations.

### Eligible Contracts

4. LME Steel Scrap, LME Steel Rebar, LME Steel HRC N Europe, LME Steel HRC N America, and LME Steel HRC FOB China (“**Eligible Contracts**”).

### LP Obligations

5. Expected obligations for Participants are as follows (“**LP Obligations**”):

	Obligations					Notes
Contracts	LME Steel Scrap	LME Steel Rebar	LME Steel HRC N Europe	LME Steel HRC US N America	LME Steel HRC FOB China	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)					Larger lot sizes can be quoted, but must be broadly symmetrical in size.
Bid offer spread	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					N/A
Required presence	Minimum of 9 hours per trading day per contract					N/A



## Incentives for the 2019 Ferrous LP Programme

### Fee Rebates

6. Participants will be eligible for trading and clearing fee rebates of inter-office and LMEselect trades where they have met at least 50% of the LP Obligations on an aggregate basis across the Eligible Contracts. In order to determine whether a Participant has met 50% of the LP Obligations for these purposes, the LME will determine the percentage of the LP Obligations that the Participant has met in relation to each of the Eligible Contracts, then calculate the arithmetic average of these figures.

### Liquidity Pool

7. Participants also have access to a total liquidity pool of up to US\$55,000 per month (the “**Liquidity Pool**”) separated by Eligible Contract, subject to meeting the conditions for each Eligible Contract set out below. The following Liquidity Pool will be made available:

<b>Eligible Contract</b>	<b>Liquidity pool contributions per month</b>	<b>Total liquidity pool per month</b>
Scrap and Rebar	US\$35,000	US\$35,000
1st HRC contract launched	US\$10,000	US\$45,000
2nd HRC contract launched	US\$5,000	US\$50,000
3rd HRC contract launched	US\$5,000	US\$55,000

8. In order to be eligible for a share of the Liquidity Pool, Participants must meet:
- at least 50% of the LP Obligations (calculated on the same basis as set out in paragraph 6 above in relation to the fee rebate calculation); and
  - 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 Participant’s own account, and which have been aggressed by other market participants that are not (at the point of execution) Ferrous LP Participants (“**Total Qualifying LP Volume**”):

<b>Number of Ferrous LP Participants</b>	<b>Applicable Liquidity Pool Threshold</b>
0-5 Participants	20% of Qualifying LP Volume
6-10 Participants	15% of Qualifying LP Volume
10+ Participants	10% of Qualifying LP Volume



9. Liquidity Pool payments for eligible Ferrous LP Participants will be calculated as follows:
- a) the Total Qualifying LP Volume that is attributable to the relevant Ferrous LP Participant
- divided by:*
- b) the aggregate Total Qualifying LP Volume figure of each Ferrous LP Participant 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 7 above
- further multiplied by:*
- d) the percentage of LP Obligations that the Ferrous LP Participant has achieved.
10. All individual Liquidity Pool payments shall be capped at a maximum of two thirds of the total Liquidity Pool.
11. Please see the worked examples set out in the Appendix, which are non-exhaustive and provided for illustrative purposes only.
12. When Ferrous LP Participants 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.

### **Duration and application period of the 2019 Ferrous LP programme**

13. The 2019 Ferrous LP programme will commence on 1 January 2019 and terminate on 31 December 2019.
14. Interested parties are invited to submit their applications to the LME Market Development department at [ferrous@lme.com](mailto:ferrous@lme.com) according to the following deadlines:

<b>Deadline for submission of completed applications</b>	<b>Start date of participation in the programme</b>
28 December 2018	1 January 2019
Fifteenth day of the month	First day of the following month
15 November 2019	1 December 2019

15. The Exchange will notify the market by way of publication on the Exchange website and via Notice the names of the successful applicants appointed for the 2019 Ferrous LP Programme.



## **Payment process**

16. The trade identifiers for the monitoring of performance under the 2019 Ferrous LP Programme will be the specific registered combination of:
  - Fix Tag 58
  - Fix Key
  - Fix Tag 109
17. The Exchange will not calculate rebates in respect of Client or Indirect Client Ferrous LP Participants who trade through multiple Members. The application form will require that each Ferrous LP Participant (who is a Client or Indirect Client) identifies a single Member through which it will undertake Ferrous LP activities for the purposes of this programme.
18. Rebates and Liquidity Pool payments (where applicable) will be credited to Members two months in arrears for the 2019 Ferrous LP Programme. For example, Liquidity Provider activities conducted in January will be calculated in February and credited in March.

## **Market Making Strategy**

19. For the avoidance of doubt, participation in the 2019 Ferrous LP programme is not intended to constitute pursuit of a Market Making Strategy for the purposes of MiFID II such that participants have to execute the MiFID II Market Making Agreement (which is the subject of Notice 17/355 and Notice 17/386). Participants in the 2019 Ferrous LP Programme shall be required to adhere to the terms and conditions set out in this Notice, but unless they also meet the criteria of providing a Market Making Strategy for MiFID II, will not be required to execute the MiFID II Market Making Agreement simply because of participation in the 2019 Ferrous LP Programme in and of itself. Members must inform the Exchange in the event that they consider they are pursuing a Market Making Strategy, as defined in the LME Rules, and also in the event that a Client of such Member is pursuing a Market Making Strategy.



## Appendix

### 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. For simplicity, the following examples are based on a programme with only two products available: LME Steel Scrap and LME Steel Rebar.

<b>Scenarios</b>	<b>Percentage of obligations met by relevant Participant</b>	<b>Percentage of rebate on trading and clearing fees</b>
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	\$50,000
Number of Participants	5
Liquidity Pool Threshold	$\geq 20\%$
Liquidity cap for any individual Participant	2/3rds of Liquidity Pool

### Scenario 1

Five Participants, of which only three (LP1, LP2 and LP3) performed above the Liquidity Pool Threshold. LP2 and LP3 do not 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%	35.0%	43.75% (35/80)	\$ 21,875 (0.4375*50000)	\$ 21,875
LP2	85.0%	25.0%	31.25% (25/80)	\$ 15,625 (0.3125*50000)	\$ 13,281 (15,625*0.85)
LP3	50.0%	20.0%	25.0% (20/80)	\$ 12,500 (0.25*50000)	\$ 6,250 (12,500*0.50)
LP4	100.0%	10.0%	0.0%	\$ -	\$ -
LP5	100.0%	10.0%	0.0%	\$ -	\$ -
Total		100%	100%	\$ 50,000	\$ 41,406

Since they are the only three Participants that have met the 20% Liquidity Pool Threshold and the minimum requirement of at least 50% of the LP Obligations, LP1, LP2 and LP3 have the potential to share 100% of the Liquidity Pool in line with their respective shares of the total eligible Liquidity Provider volume. 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 and LP3 have not met 100% of their LP Obligations. LP2 and LP3 will



receive a pro-rata payment on the basis of them meeting 85% and 50% of the LP Obligations respectively. The other two Participants (LP4 and LP5) will receive no payment.

## **Scenario 2**

Five Participants, 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 LP Obligations.

	<b>Percentage of LP Obligations met</b>	<b>Share of Total Qualifying LP Volume</b>	<b>Share of Liquidity Pool</b>	<b>Maximum payable</b>	<b>Final payment</b>
LP1	50.0%	80.0%	100.0%, but capped at 2/3 (~66.7%) (80/80)	\$ 33,333 (2/3*50000)	\$ 16,667 (33,333*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%	\$ 33,333	\$ 16,667

Since LP1 is the only Participant 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, which equals \$33,333. However, since LP1 has met only 50% of its LP Obligations it will be paid 50% of the maximum amount payable, which equals \$16,667. The other four Participants (i.e. LP2, LP3, LP4 and LP5) will receive no payment.



### **Scenario 3**

Five Participants, 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.

	<b>Percentage of LP Obligations met</b>	<b>Share of Total Qualifying LP Volume</b>	<b>Share of Liquidity Pool</b>	<b>Maximum payable</b>	<b>Final payment</b>
LP1	100.0%	65.0%	76.5%, but capped at 2/3 (~66.7%) (65/85)	\$ 33,333 (2/3*50000)	\$ 33,333 (33333*1)
LP2	100.0%	20.0%	23.5% (20/85)	\$ 11,765 (0.235*50000)	\$ 11,765 (11765*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%	\$ 45,098	\$ 45,098

Since LP1 and LP2 are the only two Participants 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 two thirds, and will therefore 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 Participants (i.e. LP3, LP4 and LP5) will receive no payment.