Appendix: Worked examples

Proprietary Liquidity Programme

Introduction

This document is intended as a guide for participants to understand how the Proprietary Liquidity Programme ("PLP") will rebate client or indirect client activity on LMEselect based on the liquidity additive properties of their trading activity.

Unless otherwise noted, all activity is assumed to have taken place on LMEselect. The 2020 fee schedule (see LME Notice 19/335) can be referenced for details on the fees used in this analysis.

Rebate formula

The formula used to determine PLP rebates is:

Rebate = ∑ (Passive Exchange Contract volume x fee per side of passive trade)
+ ∑ (Day trade Exchange Contract volume x fee per side of day trade)

The rebate is calculated on an independent, cumulative basis, per Tag 58. Rebates will be reported per Tag 58.

Each rebate is assigned to a trade so the trading activity receives the correct rebate as per the fee schedule.

When the rebate formula refers to the "fee per side" of a passive trades, this means fees listed in the LME fee schedule. If a participant trades an outright contract on LMEselect, there is a fee per side of $0.97. The total cost of the trade, $2.91, which includes a client cross, is not used in the rebate calculation.

Day trading activity is rebated based on sequential trading activity. Therefore the rebate formula will calculate the day trade rebates in the order they are traded, in the case that a participant trades the same prompt date through various contracts with different respective fees. This is explored below in worked example 4.

Worked examples

1. A proprietary trading firm buys a 3-month contract and sells a medium-dated carry to adjust the position to the nearest 3rd Wednesday contract. Both trades are passive fills on LMEselect.

- Trade 1: Receives both a passive fill rebate and a day-trade rebate. $2.91 gross fee rebated $1.94 for a net fee of $0.97.
- Trade 2: The 3-month leg of the carry is rebated for both being passive and day trading, rebating $0.98 from a gross fee of $1.47 for a net fee of $0.49. The 3rd Wednesday leg of the trade receives a rebate for passive execution and is rebated $0.49 for a fee of $0.98.
- The net cost of the trade is $2.44, with rebates of $3.41.

Leg	Gross fee	Passive rebate	Day-trade rebate	Net fee
Buy 3-month	$2.91	$0.97	$0.97	$0.97
Sell 3-month via medium-dated carry	$1.47	$0.49	$0.49	$0.49
Buy 3rd Wed via medium-dated carry	$1.47	$0.49	N/A	$0.98
Total	**$5.85**	**$1.95**	**$1.46**	**$2.44**

Example 1

2. A proprietary trading firm is passively filled to buy a 3-month contract on LMEselect and adjusts the position in the interoffice market with their clearing member to the nearest 3rd Wednesday contract.

- Trade 1: Receives a passive fill rebate. $2.91 fee rebated $0.97 for an effective fee of $1.94. Both sides of a day-trade do not occur on LMEselect and therefore there is no day-trade rebate.
- Trade 2: The second trade is booked as a client cross and pays $0.98 per leg, $1.96 in total, with no rebates because the trade does not occur on LMEselect.
- The net fee is $3.90 with gross fees of $4.87 with rebates of $0.97.

Leg	Gross fee	Passive rebate	Day-trade rebate	Net fee
Buy 3-month	$2.91	$0.97	NA	$1.94
Sell 3-month via medium-dated carry	$0.98	NA	NA	$0.98
Buy 3rd Wed via medium-dated carry	$0.98	NA	N/A	$0.98
Total	**$4.87**	**$0.97**	**NA**	**$3.90**

Example 2

3. A proprietary trading firm trades 3-month contracts throughout the day on LMEselect, buying 100 lots and selling 100 lots. Of the 200 trades, 70% are filled passively.

- The gross fees applied are $582 (200 x $2.91)
- 140 lots receive a passive $0.97 discount for $135.80
- 200 lots receive a day trading $0.97 discount for $194.00.
- Liquidity additive rebates of $329.80 result in net fees of $252.20.

Leg	Gross fee	Passive rebate	Day-trade rebate	Net fee
Trade 200 3-month contracts	$582.00	$135.80	$194.00	$252.20
Total	**$582.00**	**$135.80**	**$194.00**	**$252.20**

Example 3

4. A proprietary trading firm aggresses to buy a Mar19 3rd Wednesday contract, then is passively filled to buy a Feb19-Mar19 medium-dated carry, and finally aggresses to sell a Mar19-Jun19 long-dated carry. All trades are executed on LMEselect. This leaves the firm with a net position of long Feb19, short Mar19 and long Jun19.

- Trade 1: No passive discount. Receives a day-trade discount of $0.97. Net fee of $1.94.
- Trade 2: Passive rebates applied to both legs of the medium-dated carry, for a rebate of $0.98. Day trading rebate of $0.49 applied to Mar19 leg which closes the position opened in Trade 1.
- Trade 3: No passive rebate applied. No day trading rebate, as the day trade of Trade 1's Mar19 position is sequentially captured in Trade 2's medium-dated carry day trade rebate. Had this trade occurred before the medium-dated carry, a day-trade rebate of $0.97 would be assigned to the long-dated carry instead of the $0.49 rebate assigned to the medium-dated carry.

Leg	Gross fee	Passive rebate	Day-trade rebate	Net fee
Buy Mar19	$2.91	NA	$0.97	$1.94
Buy Feb19 via medium-dated carry	$1.47	$0.49	NA	$0.98
Sell Mar19 via medium-dated carry	$1.47	$0.49	$0.49	$0.49
Sell Mar19 via long-dated carry	$2.91	NA	NA	$2.91
Buy Jun19 via long-dated carry	$2.91	NA	NA	$2.91
Total	**$11.67**	**$0.98**	**$1.46**	**$9.23**

Example 4