

To: All Members and other interested parties

Ref: 20/009

Classification: Trading Fees

Date: 10 January 2020

Subject: **Proprietary Liquidity Programme**

Summary

1. This notice (the “**Notice**”) communicates the extension and subsequent termination of the New Market Participant (“**NMP**”), Continuing Market Participant (“**CMP**”) and Volume Based Rebate (“**VBR**”) programmes (the “**Current Programmes**”), and introduces the Proprietary Liquidity Programme (“**PLP**”).

Background

2. The LME continuously seeks to broaden participation and improve the quality of the markets on LMEselect. As per previous market engagements, the majority of LME stakeholders agree that systematic financial traders are important to the LME ecosystem. The LME market should be structured to ensure that such participants contribute positively on a long-term basis.
3. The LME has sought to achieve these goals through its NMP, CMP and VBR programmes launched in February 2019, in accordance with Notice 18/330.
4. The current incentive programmes provide varying incentives to participants based on their eligibility for each programme. The LME will terminate the Current Programmes and introduce one programme available for all Proprietary Trading Firms, as defined in the General Terms.

Defined terms

5. Capitalised terms not otherwise defined in this Notice shall have the meaning ascribed to them in the Rules and Regulations of the LME or if not defined in the Rules and Regulations, the meanings ascribed to them in the General Terms.



Market engagement

6. The proposed simplification of the LME incentive programme offering is beneficial to the market. The LME and Member firms spend a meaningful amount of resources to determine which programme a participant is eligible to apply for. Simplifying the offering to the one programme results in more clarity for all parties.
7. The LME will implement one programme for all Proprietary Trading Firms from 2 March 2020. While eligibility was previously determined at the proprietary *trader* level, eligibility will now be determined at the Proprietary *Trading Firm* level. This allows the LME to determine eligibility at the firm level instead of evaluating per individual trader.
8. As eligibility is now determined at the firm level, a firm which engages in any non-proprietary trading business will no longer be considered eligible for incentive programme participation. The General Terms have been updated to reflect this change to eligibility requirements and are attached at Appendix II. The amended General Terms will take effect from 2 March 2020. The updated General Terms will also be available on the LME website.
9. The NMP and CMP programmes provide rebates for outright 3-month and 3rd Wednesday contracts traded on LMEselect. The VBR programme provides rebates for all outrights, medium-dated carries, and long-dated carries traded on LMEselect. Based on engagement with participants, the PLP applies to all outrights, medium-dated carries, and long-dated carries traded on LMEselect.

Extension of Current Programmes

10. The LME wants to give Members and participants time to prepare for the launch of the PLP. The Current Programmes were launched at the start of February 2019 with an initial duration of 12 months. The PLP will commence on 2 March 2020. The LME is therefore extending the duration of the Current Programmes such that they terminate on 28 February 2020.
11. Participants whose participation was set to expire at the end of January 2020 will automatically have their registration in their Current Programme extended to 28 February 2020.

Proprietary Liquidity Programme

12. The PLP has been designed to promote liquidity additive behaviour on LMEselect. The PLP rebate criteria, detailed below, are designed to support higher quality order books on LMEselect and will benefit all users of the electronic marketplace.



13. Proprietary liquidity providers tend to turn over their position frequently throughout the day. Smaller positions allow them to act in their role as liquidity providers, unencumbered by a meaningful position. The natural result of this short holding period is that liquidity providers' activity is characterised by day trading, where a position is opened and closed in the same trading day. Trading in this manner is beneficial to the quality of the market and fee sensitive.
14. Proprietary liquidity providers' orders are often filled passively, where the order is resting in the order book before it is matched. Because it is resting in the order book, passive volume adds depth and quality to the market, and is liquidity additive. An aggressing order, by contrast, matches with a resting order and removes liquidity from the order book.
15. A Client trade on LMEselect can be viewed as three sides with the T4 booking model, each of which pays fees. The PLP rebates one side of a trade for each liquidity additive characteristic.
16. For passive volumes, as determined by LMEselect, where the PLP participant's order was resting when matched, one side of the trade will be rebated. This represents a one-third fee rebate.
17. For day-trades, where the position in a Prompt Date is opened and closed within the same trading day, one side of the trade will be rebated. This represents a one-third fee rebate.
18. For PLP participants, the maximum fee reduction possible is two-thirds, by day-trading through passive activity. Some PLP participants may receive no fee reduction based on the nature of their trading activity.
19. Worked examples are available in Appendix III.
20. Members are required to submit applications for PLP, by emailing completed applications to incentive.programmes@lme.com. Applications can be submitted to the LME at any time from the date of this Notice. Applications will not be considered if received from a Client or Indirect Client. No incentive programme participants will be grandfathered in to the PLP.

Governance and Applications

21. The terms and conditions governing the programme (the "**General Terms**") govern the Proprietary Liquidity Programme.
22. The LME has created a specification document (the "**Specification**"), attached as Appendix I, to outline the terms and conditions applicable to the PLP.



23. Upon the LME's acceptance of a participant onto the PLP, the following documents shall together form the agreement between the LME and the relevant Member in respect of the participant's registration in the PLP.

- (a) The Member's application form in respect of such participant, consisting of both a PDF and accompanying Excel document. The Member must assign a unique application reference identifier which must match between the PDF and Excel document;
- (b) The programme Specification; and
- (c) The General Terms.

Termination of Current Programmes

24. The NMP, CMP and VBR programmes will terminate on 28 February 2020. Participants will receive rebates from the Current Programmes in the normal billing cycle for February activity.

Questions

25. Members and other interested parties with any questions about the incentive programme are invited to contact the LME at sales@lme.com.

David Lutz
Head of Buy-Side Sales

cc: Board directors
User Committee
Ring Dealers' Committee