

LME Strategic Pathway: Summary

September 2017



SETTING THE GLOBAL STANDARD



“The LME’s mission is to provide a best-in-class trading and clearing platform to support the global metals ecosystem”

Strategic Pathway: Overview

Strategic Principles



What are we doing now?



What are we doing over time?



What are we doing now? Carry fee discounts

Action:

- Introduce carry fee discounts, for review after 12 months

1 Short-dated carries (where both legs are within first 15 days of the TOM date)

	Pre-commercialisation	Current	New (from 1 Oct)
Member	Ring: 21¢	Ring: 50¢	Ring: 15¢
	Basis: 40¢	Basis: 50¢	Basis: 35¢
	LMeselect: 40¢	LMeselect: 50¢	LMeselect: 25¢
	Inter-office: 40¢	Inter-office: 50¢	Inter-office: 35¢
Client	Client contract: 6/21¢*	Client contract: 50¢	Client contract: 25¢

2 Medium-dated carries (where both legs are within 35 days of each other)

	Pre-commercialisation	Current	New (from 1 Nov)
Member	Ring: 21¢	Ring: 50¢	Ring: 25¢
	Basis: 40¢	Basis: 50¢	Basis: 45¢
	LMeselect: 40¢	LMeselect: 90¢	LMeselect: 45¢
	Inter-office: 40¢	Inter-office: 90¢	Inter-office: 70¢
Client	Client contract: 6/21¢*	Client contract: 90¢	Client contract: 45¢

Designed to:

- Encourage short-dated carry activity and stimulate all trading
- Drive use of date structure and use of monthly rolls

Discussed with:

- LME User Committee, who helped with calibration (especially between trading venues)

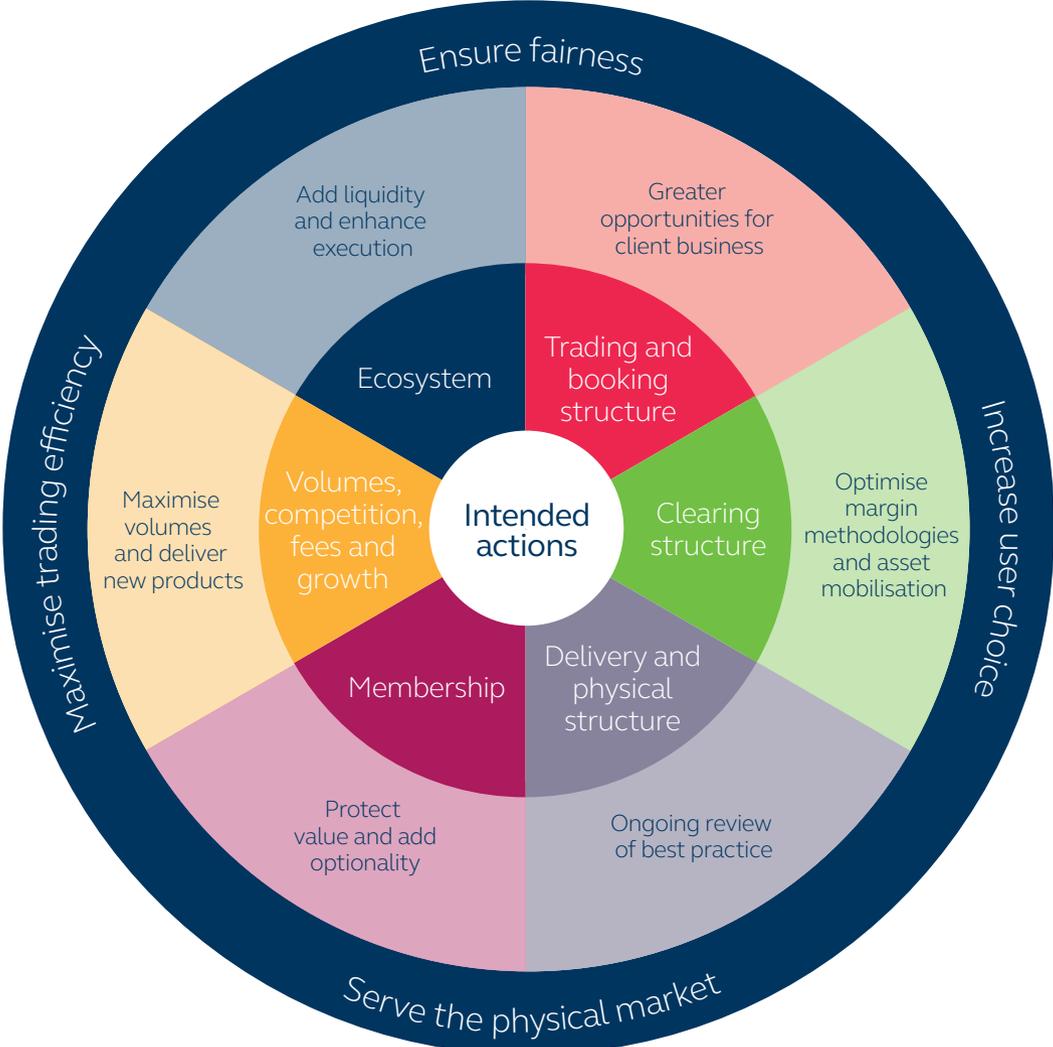
*6¢ for non-seg, 21¢ for seg

What are we doing now? Fairer financial OTC booking fees

Action:
• Introduce financial OTC booking fee where dealers' OTC contracts use the LME price

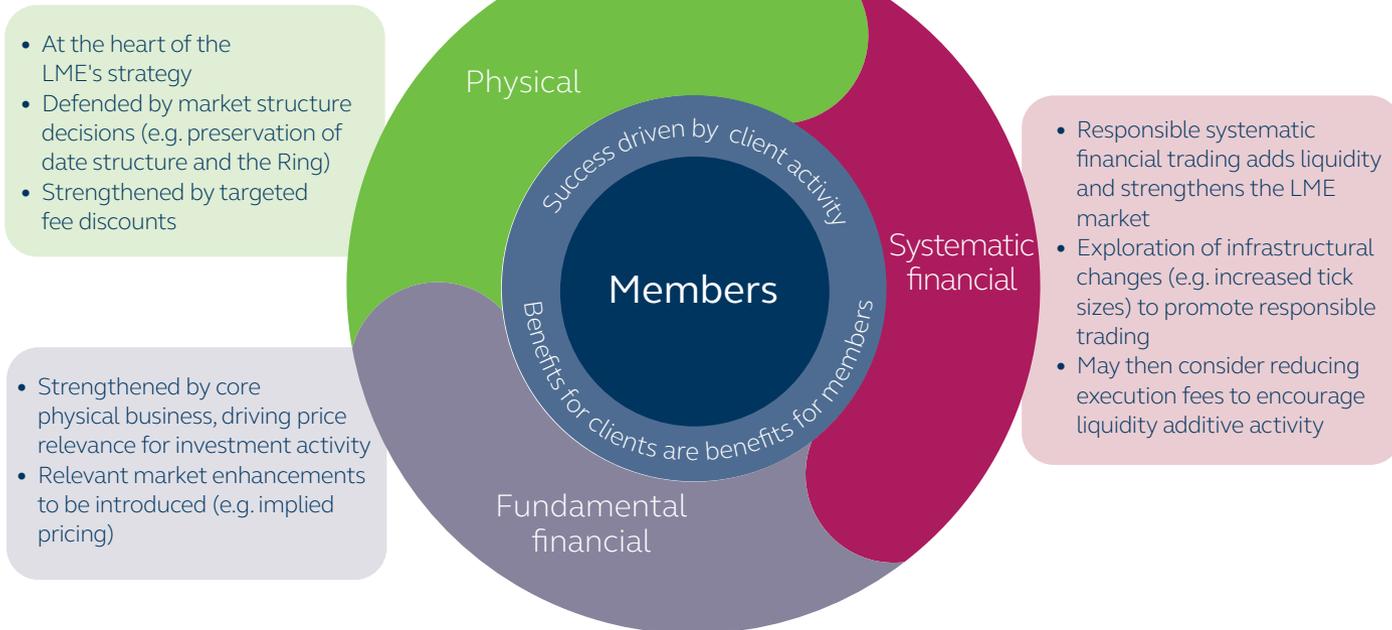


What are we doing over time? Strategic framework



Ecosystem: Add liquidity and enhance execution

Strategic direction: Investigate market structure tools to ensure all participants add liquidity and enhance execution quality



Intended actions:

- Tick size review to promote only responsible algorithmic trading
- Ensure the LME strategic pathway remains beneficial to all market stakeholders

Trading and booking model: Greater opportunities for client business

Strategic direction: Deliver convergence between the on-exchange and OTC (dealer-to-client) spaces by providing a range of client execution and clearing opportunities

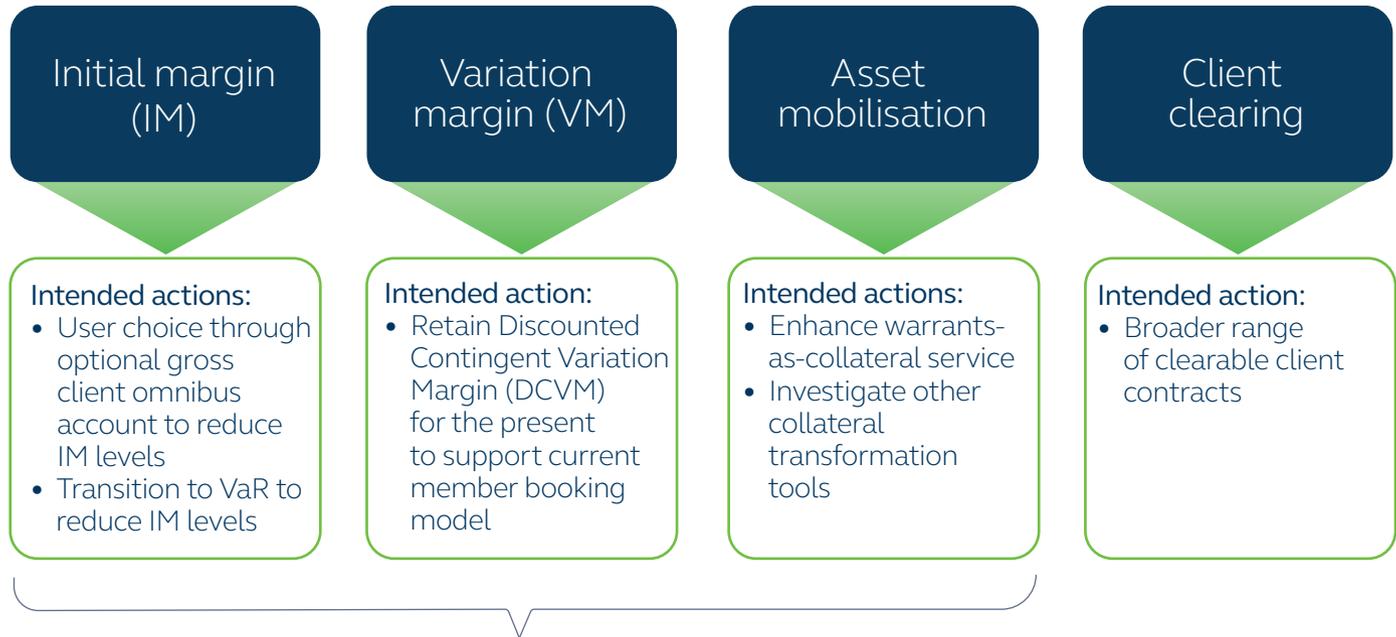
		Client need	Example	How can the LME help?	
User choice		Execute contracts that are liquid on LMEselect	3-month systematic financial traders	Intended action: <ul style="list-style-type: none"> Introduce optional T2 booking model 	
		Execute contracts that should be liquid on LMEselect	3rd Wednesday fundamental financial investors	Intended action: <ul style="list-style-type: none"> Upgrade LMEselect with implied pricing to support daily and monthly liquidity 	Intended action: <ul style="list-style-type: none"> Investigate potential dealer-to-client platform
		Execute illiquid contracts with a dealer, but still centrally clear	Physical averaging clients	Intended action: <ul style="list-style-type: none"> Introduce flexible client clearing 	
		Execute OTC exclusively	Physical averaging clients	Intended action: <ul style="list-style-type: none"> Bring fairness through financial OTC booking fee 	

Intended action:

- Preserve physical clients' preference for official Ring pricing while investigating potential optimisation of closing price methodology

Clearing model: Optimise margin methodologies and asset mobilisation

Strategic direction: Enhance efficiency of clearing by optimising margin methodology and providing best-in-class tools for the efficient mobilisation of assets

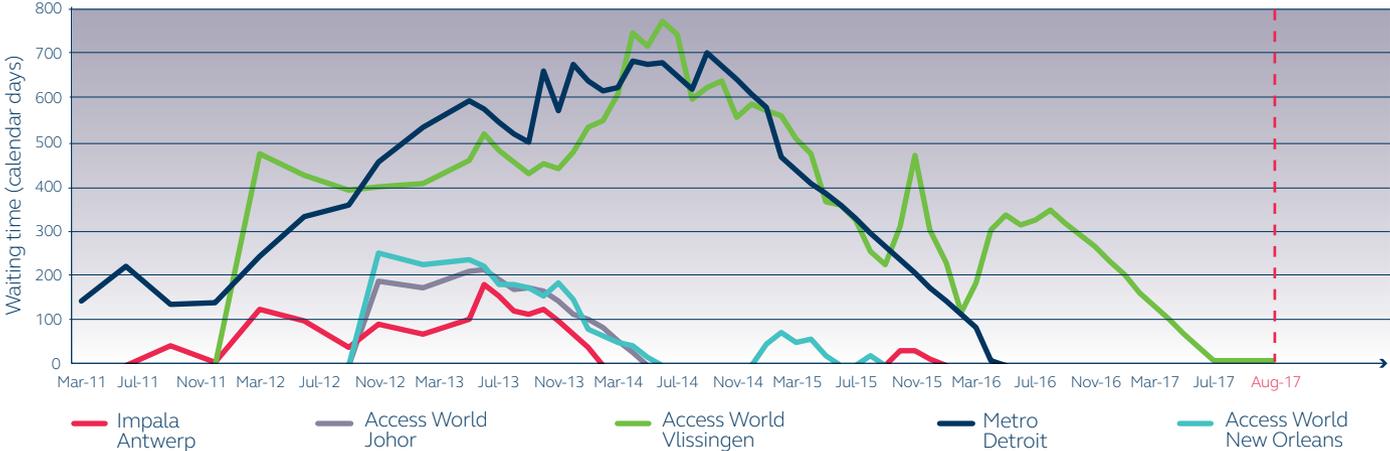


Delivery of IM reduction and asset mobilisation will protect market in the event of needing to move to Realised Variation Margin (RVM)

Delivery and physical structure: Ongoing review of best practice

Strategic direction: Maintain ongoing review to optimise the physical market structure and ensure it represents best practice

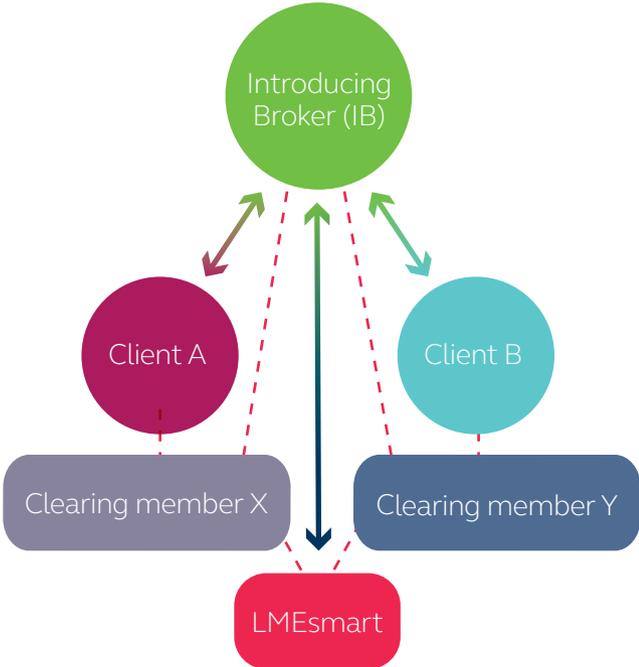
No structural queues in the LME warehouse system as of 31 August 2017 – thanks to new rules



- Intended actions:**
- Work with warehouse operators to enhance the LME warehouse offering
 - Deliver further physical market services and restructure LMEshield fees
 - Continue to monitor the effectiveness of the Lending Rules and forthcoming position limits

Membership: Protect value and add optionality

Strategic direction: Protect the value of LME membership and B shares, but lower barriers to entry by providing fair access to all



B shares

Cat 1-4 members are required to hold B shares ranging from 2,500 for Cat 4 to 25,000 for Cat 1 and 2

Membership category	B share requirement
Cat 1 and 2 (GCMs)	25,000
Cat 3 (ICMs)	5,000
Cat 4 (NCMs)	2,500

Help members grow the value of their holdings while expediting market access through:

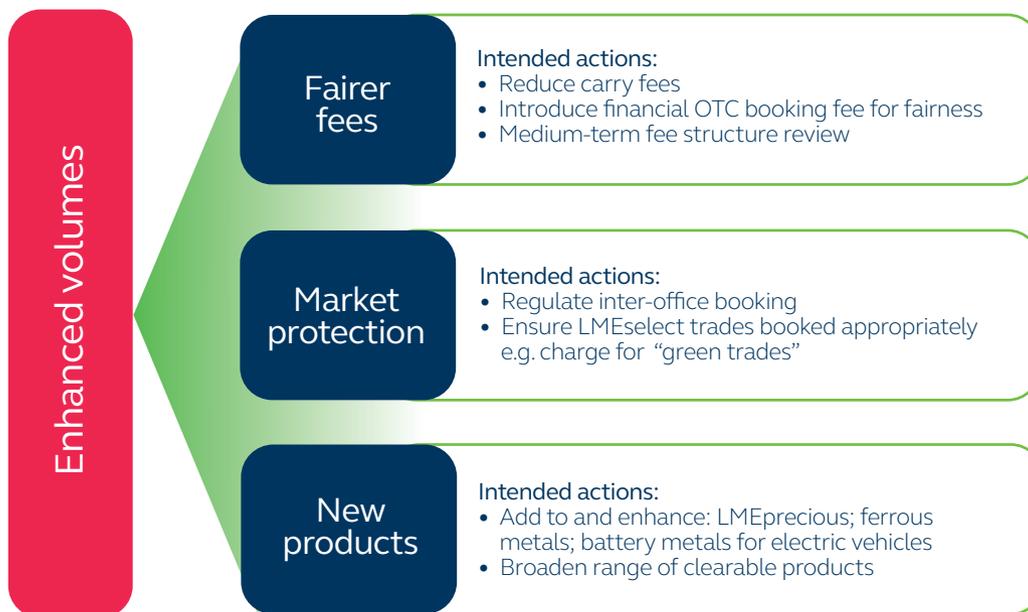
- Matched bargain facility
- B share leasing scheme

Intended actions:

- Deliver IB access
- Provide a matched bargain facility and leasing scheme for B shares

Volumes, competition, fees and growth: **Maximise volumes and deliver new products**

Strategic direction: Maximise trading volumes by delivering a fair fee schedule and new products and services



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