

# 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

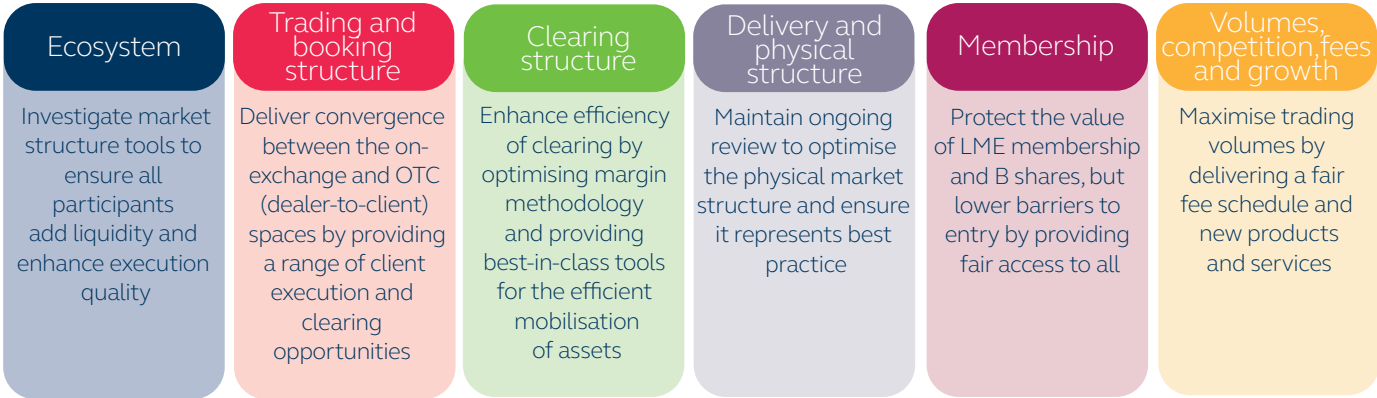
## Strategic Principles



### 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¢ Basis: 40¢ LMEselect: 40¢ Inter-office: 40¢	Ring: 50¢ Basis: 50¢ LMEselect: 50¢ Inter-office: 50¢	Ring: 15¢ Basis: 35¢ LMEselect: 25¢ Inter-office: 35¢
Client	Client contract: 6/21¢*	Client contract: 50¢	Client contract: 25¢

## Designed to:

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

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

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

## Discussed with:

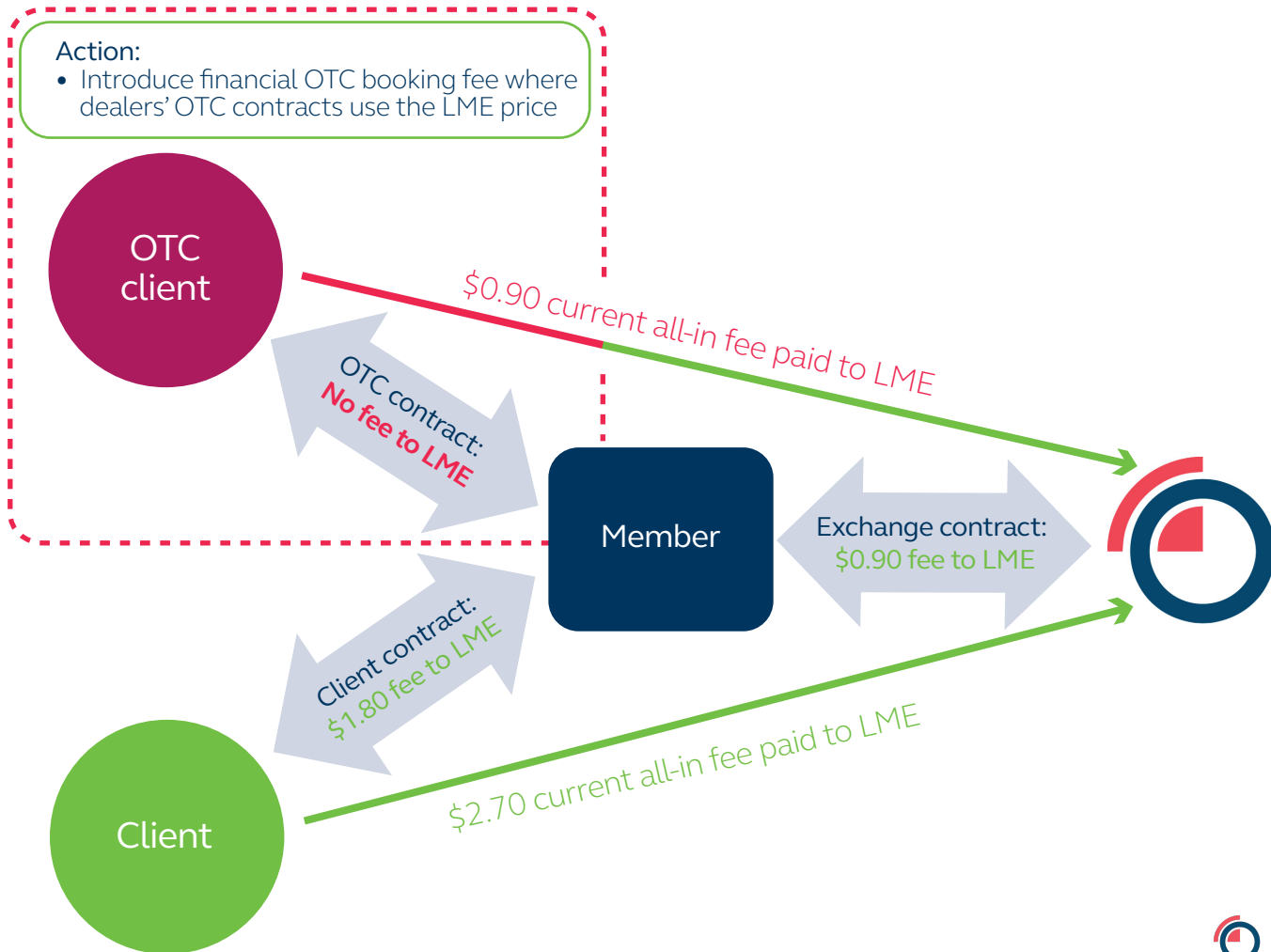
- LME User Committee, who helped with calibration (especially between trading venues)

\*6¢ for non-seg, 21¢ for seg

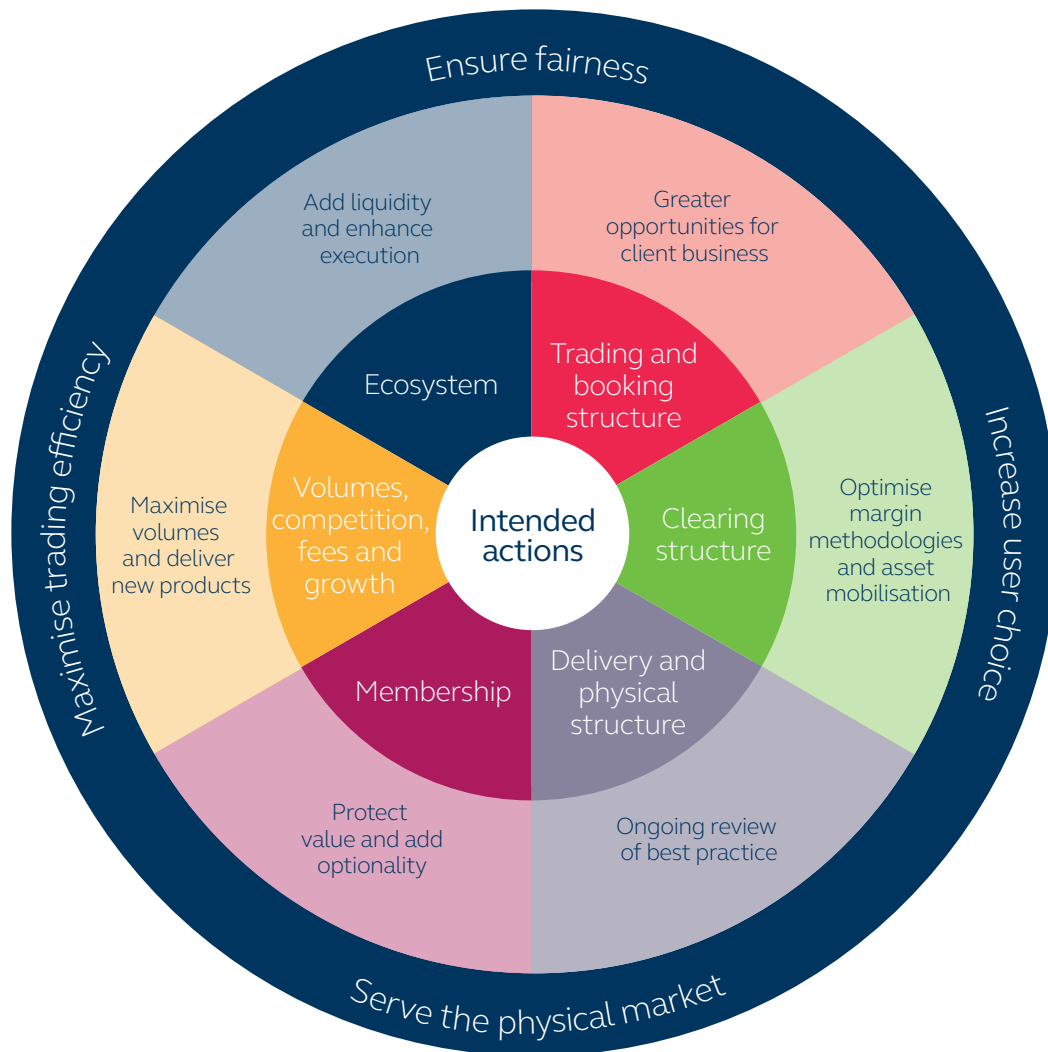
# What are we doing now? Fairer financial OTC booking fees

## Action:

- Introduce financial OTC booking fee where dealers' OTC contracts use the LME price

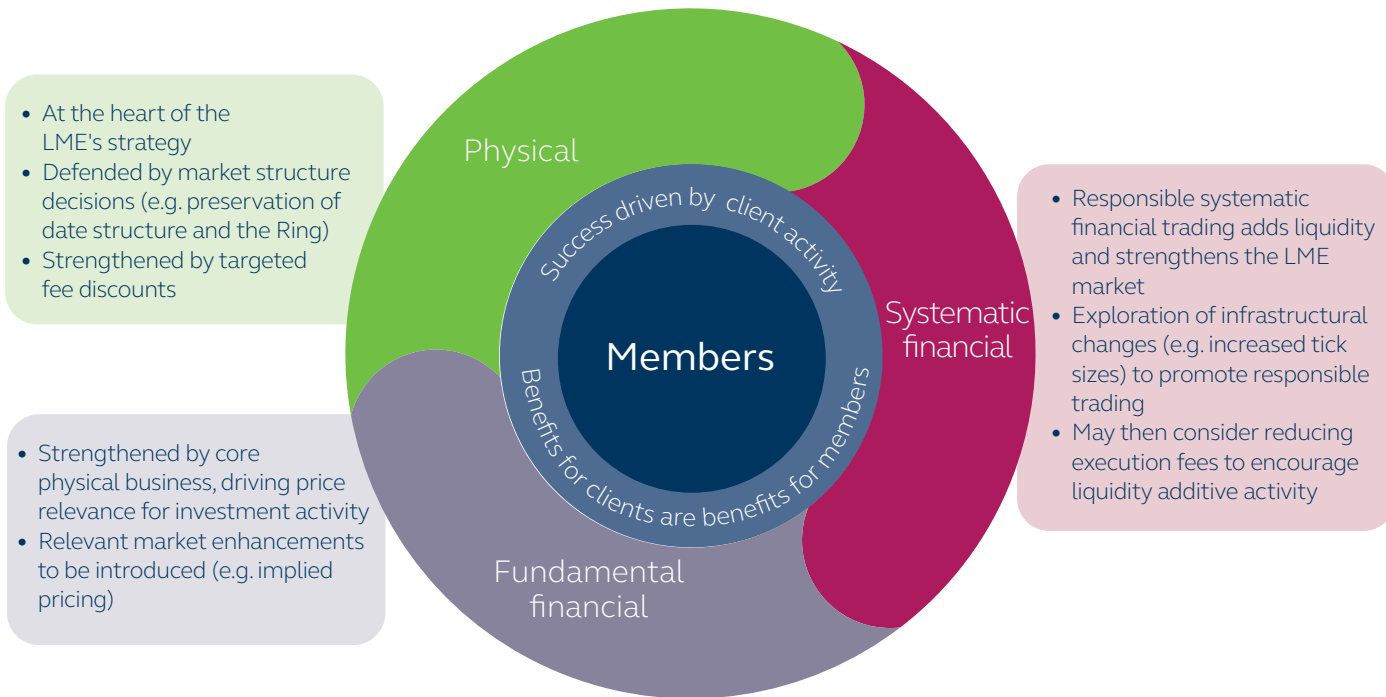


# What are we doing over time? Strategic framework



# 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		<b>Intended action:</b> <ul style="list-style-type: none"><li>• Introduce optional T2 booking model</li></ul>	
	Execute contracts that should be liquid on LMEselect	3rd Wednesday fundamental financial investors		<b>Intended action:</b> <ul style="list-style-type: none"><li>• Upgrade LMEselect with implied pricing to support daily and monthly liquidity</li></ul>	<b>Intended action:</b> <ul style="list-style-type: none"><li>• Investigate potential dealer-to-client platform</li></ul>
	Execute illiquid contracts with a dealer, but still centrally clear	Physical averaging clients		<b>Intended action:</b> <ul style="list-style-type: none"><li>• Introduce flexible client clearing</li></ul>	
	Execute OTC exclusively	Physical averaging clients		<b>Intended action:</b> <ul style="list-style-type: none"><li>• Bring fairness through financial OTC booking fee</li></ul>	

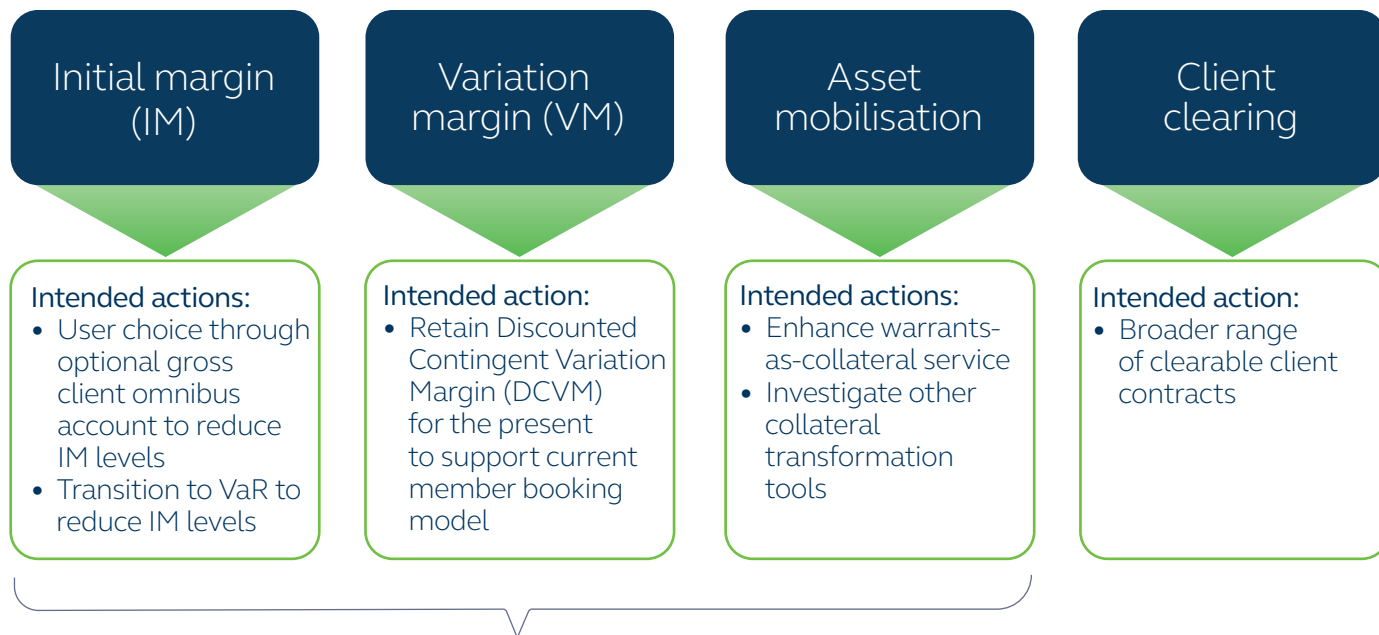
**Intended action:**

- 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

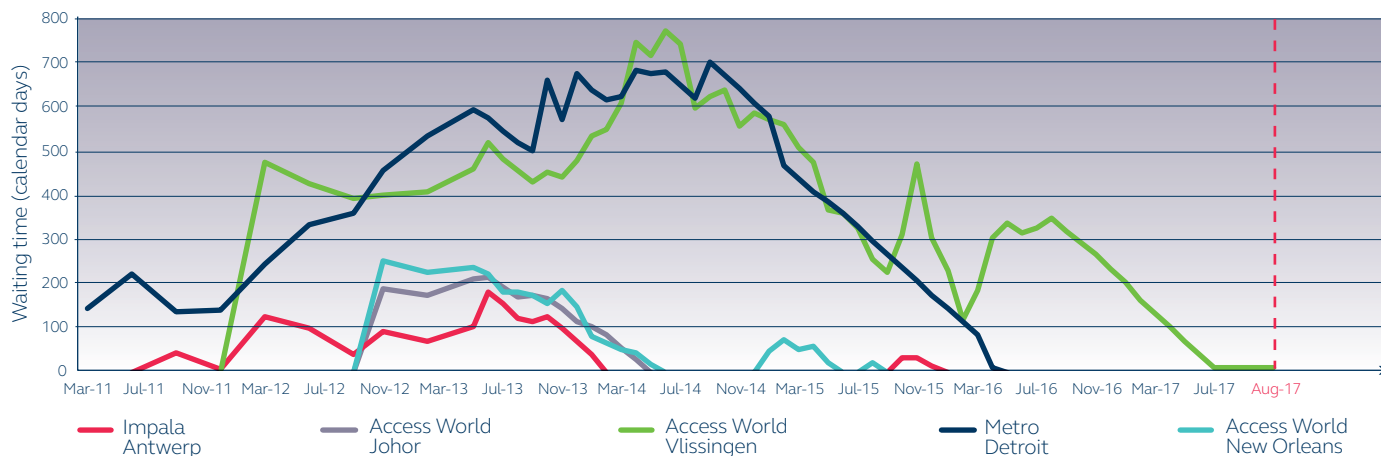


Delivery of IM reduction and asset mobilisation will protect market in the event of needing to move to Realised Variation Margin (RVM)

# 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

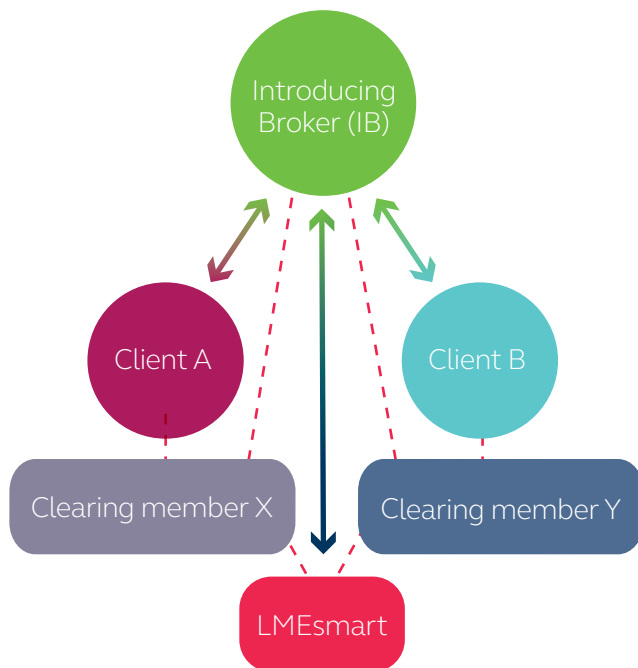


## Intended actions:

- 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:

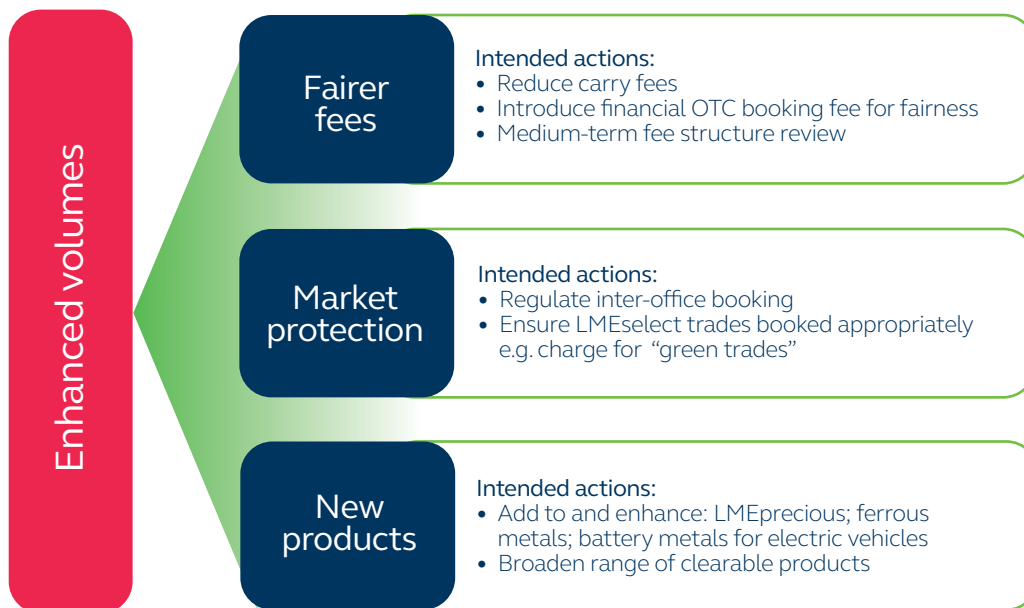
- Matched bargain facility
- B share leasing scheme

## 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



© The London Metal Exchange (the "LME"), 2017. The London Metal Exchange logo is a registered trademark of The London Metal Exchange.

All rights reserved. All information contained within this document (the "Information") is provided for reference purposes only. While the LME endeavours to ensure the accuracy, reliability and completeness of the Information, neither the LME, nor any of its affiliates makes any warranty or representation, express or implied, or accepts any responsibility or liability for, the accuracy, completeness, reliability or suitability of the Information for any particular purpose. The LME accepts no liability whatsoever to any person for any loss or damage arising from any inaccuracy or omission in the Information or from any consequence, decision, action or non-action based on or in reliance upon the Information.

The Information does not, and is not intended to, constitute investment advice, commentary or a recommendation to make any investment decision. The LME is not acting for any person to whom it has provided the Information. Persons receiving the Information are not clients of the LME and accordingly the LME is not responsible for providing any such persons with regulatory or other protections. All persons in receipt of the Information should obtain independent investment, legal, tax and other relevant advice before making any decisions based on the Information.

LME contracts may only be offered or sold to United States foreign futures and options customers by firms registered with the Commodity Futures Trading Commission (CFTC), or firms who are permitted to solicit and accept money from US futures and options customers for trading on the LME pursuant to CFTC rule 30.10.

**THE LONDON METAL EXCHANGE**  
10 Finsbury Square, London EC2A 1AJ | Tel +44 (0)20 7113 8888

