

To: All members and other interested parties

Ref: 25/083

Classification: Consultation Trading

Date: 30 April 2025

Subject: **CONSULTATION ON ENHANCING LIQUIDITY**

Summary

1. The London Metal Exchange (the “**LME**” or the “**Exchange**”) is seeking the views of its Members and all other interested parties in respect of the introduction of certain proposed changes to the Rules and Regulations of the LME (the “**Rules**”), which relate to:
 - (i) the introduction of block thresholds for trading in the inter-office market;
 - (ii) the introduction of a prohibition on Pre-Trade Communications in relation to trades made in LMEselect; and
 - (iii) the introduction of a “Crossing Rule” in relation to trades executed in LMEselect;(the “**Consultation**”).

Defined terms

2. Terms not otherwise defined in this notice (this “**Notice**”) shall have the meaning ascribed to them either in the current version of the LME Rulebook or in the indicative revisions to the Rulebook set out in Annex 2 of this Notice.

Documents attached to this Notice

- Annex 1: Proposed list of LME Liquid Instruments and Minimum Volume Thresholds (draft)
- Annex 2: Redline of proposed amendments to the LME Rulebook
- Annex 3: Blocks Guidance (draft)
- Annex 4: Crossing Guidance (draft)

Background

3. In the LME’s “White Paper on Enhancing Liquidity” published in September 2024 (the “**White Paper**”), the LME set out its vision to implement a set of initiatives in its continued efforts to modernise its markets.
4. This Consultation should be read in conjunction with Notice 25/082 (the “**Update Document**”). The Update Document outlines the LME’s more general roadmap of its modernisation measures and provides an update on all of the different initiatives that were described in the White Paper.
5. This Consultation covers a subset of the initiatives originally presented in the White Paper, together with a number of proposed Rulebook changes required to enact these changes if the LME were to proceed with any of the proposed initiatives. The initiatives presented in the Consultation complement one another and are intended to be delivered as a package to maximise their effectiveness. They also represent the next major step in the LME’s market modernisation journey.



6. This journey of modernisation started in 2017 when the LME published a discussion paper on the future move towards a more standardised market structure (the “**Strategic Pathway**”). As a result of the Strategic Pathway document, the LME implemented a number of measures to support liquidity on its electronic market including notably (i) a tick size review; (ii) implied pricing on LMEselect and (iii) the introduction of TAS functionality.
7. In 2021, the LME issued the LME Discussion Paper on Market Structure (the “**2021 Discussion Paper**”). The 2021 Discussion Paper built on the work done in the 2017 Strategic Pathway and considered several structural changes to the LME. Part of the 2021 Discussion Paper considered how to support and increase liquidity on LMEselect by a combination of (1) fee changes, (2) light block rules, (3) a liquidity provider programme, (4) promotion of enhanced transparency cross trade and (5) appropriate pre-execution communication rules.
8. The LME’s journey towards evolving its market structure continued in March 2023 with the publication of the Action Plan to Strengthen the LME Group’s Markets (the “**Action Plan**”). The Action Plan reconfirmed the LME’s commitment to the market structure evolution plans laid out in the 2021 Discussion Paper. More recently in 2024, the LME successfully introduced the Additional VWAP Closing Price methodology.
9. All of these different initiatives embody the LME’s desire over time to standardise and modernise its markets, make them stronger and more transparent, and promote deep and resilient liquidity in its electronic market, whilst simultaneously protecting the unique features of its market that serve the physical metal communities.
10. It is the LME’s belief that increased levels of liquidity in its central order book will result in greater transparency and achieve greater price competition and support best execution, which ultimately benefits the market as a whole.

Market engagement

11. The White Paper made clear that it was neither a discussion paper nor a formal consultation, but a means for the LME to convey to the LME community its proposed direction of travel to further evolve and modernise the structure of its markets.
12. The LME sought technical feedback on a number of proposals in the White Paper and established the Blocks Working Group (“**BWG**”) in order to discuss the technical feasibility of certain of these proposals and for Members to raise any questions or concerns with such technical aspects.
13. The LME also sought feedback in respect of the White Paper in general and conducted an extensive market engagement exercise (including bilateral Member meetings, Client meetings and engagement with a number of industry bodies and associations).
14. These discussions, either through the BWG or bilaterally with Members and other market participants have helped the LME progress its thinking and shape the proposals being consulted on in this Notice and the associated draft pieces of guidance.
15. As noted above, a more in-depth explanation as to the changes that were made to the LME’s original thinking in the White Paper is set out in the Update Document.
16. The LME welcomes the continued engagement with Members, Clients and the broader market throughout the consultation period. The LME will duly consider all of the feedback received during the consultation period before making any decision whether to proceed with the proposals being consulted on.
17. If any of the proposals set out in this Consultation are taken forward, the LME envisages continuing its broad market engagement, including with Independent Software Vendors (ISVs), other vendors and any other relevant stakeholders, in order to discuss the technical steps necessary to implement and timescales for doing so.



Objectives of the proposed measures

18. As explained in the White Paper and in line with the other objectives outlined there, the key objective of the LME's package of measures presented in this Consultation is to increase liquidity in the central electronic venue to support better execution for end clients. Maximising centralised liquidity is also aligned to the LME's core regulatory requirements to maintain fair, orderly and efficient markets and to ensure orderly pricing and effective settlement of contracts.
19. This follows a key recommendation that was made in the Independent Review of Events in the Nickel Market in March 2022 which was to *"over time, provide a clear vision of the future of market structure at the LME and LME Clear, including its venues, fee structure, clearing model and market access"* and to *"where possible – without significant loss of functionality to existing participants – commit to measures that would standardise the market structure with global peers to enable participation and consequent growth in liquidity"*.
20. More broadly, the introduction of the proposals would enhance the LME's ability to support the market integrity objective of UK regulators set out in Financial Services and Markets Act 2000 ("FSMA").

The Proposals

21. The LME is consulting on a number of proposed Rulebook changes required to enact these proposals if the LME decided to proceed with any of the proposals set out below. A draft of the indicative Rulebook changes can be found in Annex 2.
22. The proposed MVT and Crossing Rules would each have associated technical guidance. The LME is providing a draft of these pieces of technical guidance in this Consultation in order for Members and the wider market to give informed consideration and response to this Consultation.

1. The Minimum Volume Threshold Rule for trading in the inter-office market

23. Minimum volume thresholds for trades privately negotiated outside of the electronic order book before being registered and cleared by the exchange are standard features of listed derivatives markets, helping to deliver increased price competition in the more transparent venue for trades below the threshold. The LME is therefore proposing to implement a new rule imposing block thresholds (called minimum volume thresholds or the **"MVT Rule"**) for trading in the inter-office market.
24. The objectives of the MVT Rule are to (i) increase price competition in the central order book for trades below the minimum volume thresholds (i.e small volume trades), and (ii) increase liquidity for small volume trades in the central order book.
25. The proposed MVT Rule in the inter-office market combined with the Crossing Rule on LMEselect (more on that proposal below) intend to allow client orders below the threshold to benefit from potential price improvements while still delivering trade certainty.
26. As noted in the Update Document, the initial set of LME Liquid Instruments would consist of monthly outright (or 3-month) contracts out to month 6, and any spreads where both legs involve a monthly contract out to month 6 or the 3-month contract for Aluminium, Copper, Zinc, Nickel and Lead futures only (excluding LME Options TAPOs, MAFs etc). LME Liquid Instruments would apply to Member-to-Member trades and Member-to-Client trades. It would apply only to trades executed in USD. In order to support the physical market, the MVT Rule would not apply to daily prompts or spreads where one leg is a daily prompt. The MVT Rule would also not apply to cash outright trades, or spread trades from cash to other prompt dates in order to support the cash price.
27. The LME received feedback in relation to the potential impact of block thresholds on Members' ability to guarantee Closing Price orders to Clients (so called **"market-on-close"** or **"MOC"** business). However, where a Trade-at-settlement (**"TAS"**) contract exists, the LME considers that this can be used throughout the day to expose such orders to greater price competition and increased transparency. Therefore the LME proposes that the MVT Rule would not apply to MOC business in instruments for which there are no TAS contracts, but, where a TAS contract exists, any MOC business would be in scope of the MVT Rule and would have to be crossed through the relevant TAS orderbook.
28. In terms of the levels at which the blocks should be set, the White Paper included an indicative level of 10 lots across all base metals. The original quantitative analysis that drove that indicative level was



based on the set of instruments out to month 12, and was adjusted based on expert judgment the LME had undertaken at the time. We received extensive feedback on this point in response to the White Paper. That feedback was consistent in suggesting greater differentiation between metals although differed between groups of participants who expressed different views as to whether, for example, a particular threshold should be higher or lower.

29. The LME has carefully considered all the feedback provided on the scope and levels of the MVT. It has taken this into account when setting out the proposed parameters (see Annex 1). The LME considers that ultimately the MVT parameters require it to exercise expert judgment by balancing the competing views provided in the responses to the White Paper, its own technical analysis and relevant factors including the simplicity of the framework on the one hand and an appropriate level of differentiation between metals to reflect their individual characteristics on the other. The parameters now proposed reflect this careful balancing exercise which it has undertaken.
30. This is highlighted to market participants and stakeholders so that they can consider this for the purposes of preparing their responses: while the LME will approach its final decision following the Consultation with an open mind, any further submissions on the scope and level of the MVT should focus on material issues or unintended consequences associated with them, and need to be backed by strong and compelling evidence. For the avoidance of doubt, the market should not assume that there will be future consultations on any revisions to the parameters of the MVT if the LME decides to implement it following the Consultation; nothing in this Consultation should be taken as indicating such an intention or commitment on the part of the LME.
31. The LME is currently minded to allow greater granularity between metals and, taking into account factors such as bid/ask spreads, size in the book, average trade size and notional size, is indicatively proposing block levels of 15 lots for Aluminium, 10 lots for Copper, Zinc and Lead and 5 lots for Nickel.
32. In the same vein, the LME attaches a draft of the technical guidance on the MVT Rule (the “**Blocks Guidance**”) that should be read in conjunction with the Consultation in Annex 3. For the avoidance of doubt, if the MVT Rule were to be implemented there should be no assumption that there will be future consultations on revisions to this guidance. Moreover, the parameters set out in Annex 1 would be subject to regulatory approval.

(a) Proposed Rulebook changes

33. The proposed MVT Rule would prohibit the execution in the inter-office market of Agreed Trades in LME Liquid Instruments which are below the minimum volume thresholds. In general, such trades would have to be executed in LMEselect (or in the Ring).
34. As shown in Annex 1, the LME would publish by way of Notice the list of LME Liquid Instruments in scope of the MVT Rule as well as the associated thresholds.
35. Broadly (and subject to the exceptions and exemptions set out below), an Agreed Trade would be capable of execution in the inter-office market **only if**:
 - (a) The Agreed Trade is in an LME Liquid Instrument and is:
 - equal to or above the minimum volume thresholds, or
 - is below the minimum volume thresholds but benefits from exceptions or exemptions (more on this below);
 - OR
 - (b) the Agreed Trade is **not** in an LME Liquid Instrument, i.e. it is not in a Contract and/or maturity in scope of the MVT Rule;
 - OR
 - (c) the MVT Rule has been expressly temporarily disapplied by the LME for all market participants (e.g. an operational issue with LMEselect).



36. The proposed rule would prohibit Members and RIBs from aggregating their trades in LME Liquid Instruments in order to meet or exceed the Thresholds, to avoid the circumvention of the rule.
37. The LME proposes two **exceptions** to the application of the MVT Rule:
- where a Member wishes to agree a trade with a Client ("**Client Trade**"), the Member may agree the Client Trade on the inter-office market if before doing so, it has first executed an equivalent trade in LMEselect in the exact same instrument(s) (the combination of) which results in a position equivalent to the Client Trade; or
 - where a Member would have first executed in LMEselect an Agreed Trade in compliance with a specified method of crossing (see below), the Member would then be allowed to execute the Agreed Trade in the inter-office market.
38. In addition, the MVT Rule would be subject to **further (limited) technical exemptions**. These technical exemptions would be set out in the Blocks Guidance.
39. The LME would have a power to temporarily disapply the MVT on a discretionary basis for the whole market. The LME expects to use this power in exceptional circumstances only, in order to ensure the orderly functioning of its markets, for instance in case of an incident impacting trading on LMEselect, by provisionally re-routing all orders to the inter-office market whilst resolving the incident. Members and market participants would be notified of the temporary disapplication appropriately.
40. The proposed MVT Rule would require consequential amendments to Regulations 2.5 (*Execution of trades in the inter-office market*), 2.8 (*Pre-Execution Checks*), 2.10 (*Contingent Agreement to Trade*), 2.11 (*Give-Ups*) 2.12 (*Requirements for Registered Intermediating Brokers*) and 3.12 (*Agreed Trades as Gross Transactions*) in the Trading Regulations of the LME Rulebook ("**Part 3**").
41. Members would continue to maintain full audit and transaction history for all trades and orders. However, to make this obligation clear, the LME proposes to introduce a rule requiring Members to keep accurate, complete and accessible documentary evidence showing their continued compliance with the MVT Rule (Regulation 3.7 (*Maintenance of Records*) in Part 3).
42. The LME proposes new definitions in the LME Glossary (in Part 1) for the purposes of the proposed MVT Rule.

(b) Questions

Q.1: Do you agree with the LME's approach to introducing an MVT Rule in the inter-office market? If not, please explain why.

Q.2: Do you agree with the two proposed Rulebook exceptions to the MVT Rule? If not, please explain why.

Q.3: Are there any other relevant factors that you think the LME should consider in relation to the introduction of an MVT in the inter-office market? (including any views on the proposed parameters in Annex 1)

Q.4: Are there any *alternative* or *additional* measures to the proposed introduction of the MVT Rule the LME should consider?

More generally, the LME invites the provision of relevant analysis or underlying documentary evidence in relation to its proposal to introduce an MVT Rule in the inter-office market, including when responding to any of these questions.

2. The Prohibition on Pre-trade Communications on LMEselect

43. The proposed prohibition on Pre-Trade Communications before trading on LMEselect seeks to align the LME Rulebook with prohibitions which are standard in other peer venues in relation to electronic trading and seeks to reinforce the prevention of market abuse on LMEselect.



(a) Proposed Rulebook changes

44. The proposed rule would introduce a prohibition on Pre-Trade Communications in LMEselect. This is standard across most peer markets.
45. The objective of the proposed rule is to prevent improperly pre-arranged or pre-negotiated trades on LMEselect. Where Pre-Trade Communications are permitted in relation to Agreed Trades, the proposed new rule clarifies that such communications must not breach market abuse legislation and ensures that the price quoted for the potential or future Agreed Trade is at Fair Market Value.
46. The draft rule clarifies that the prohibition on Pre-Trade Communications does not apply to Agreed Trades made in the inter-office market, or to Agreed Trades made in LMEselect where the Member has utilised the Crossing Rule.
47. The draft rule also provides that Regulations 12.3 and 12.4A(a) in Part 3 (which impose a duty on LMEselect Participants to maintain the anonymity of LMEselect trading activity) are to be disapplied where a trader enters an order into LMEselect in accordance with the Crossing Rule and has engaged in Pre-Trade Communications with another LMEselect Participant prior to the cross. For the avoidance of doubt, traders would remain bound at all times by the duty to maintain the confidentiality of the identity of their counterparties when making use of the Crossing Rule.
48. The LME proposes to make consequential amendments to Regulation 12.7 of the Membership Regulations ("**Part 2**") to expressly prohibit in Members from entering an order in LMEselect in breach of the Pre-Trade Communications prohibition. Such prohibited communications would be characterised as an Act of Misconduct under the LME Rulebook under proposed new Regulation 13.2(j) Part 2.
49. As a consequence of introducing a prohibition on Pre-Trade Communications, the LME is proposing to make a minor glossary change to the words used in the Rulebook to describe the Fixed Price Auction process: pre-trade communications made in the context of a PTT Order would be referred to as "Pre-Trade Execution Communication" to distinguish them from the new proposed rule prohibiting "Pre-Trade Communications" on LMEselect. To be clear, the LME is not proposing to change any aspects of the Fixed Price Auction process for now.
50. Finally, the LME proposes to introduce a new rule requiring Members to keep accurate, complete and accessible documentary evidence showing their continued compliance with the prohibition on Pre-Trade Communications (please see the proposed changes to Regulation 3.7 Part 3 on the *Maintenance of Records*).

(b) Questions

Q.5: Do you agree with the proposed prohibition on Pre-Trade Communications on LMEselect as a matter of principle? If not, please explain why.

Q.6: Do you agree with the principle of an exception such that Pre-Trade Communications on LMEselect are permitted if the Member crosses an order on LMEselect which is in line with the Crossing Guidance? If not, please explain why.

Q.7: Do you think the scope of the exception is appropriate? If not, please explain why.

More generally, the LME invites the provision of relevant analysis or underlying documentary evidence in relation to its proposal to introduce a Prohibition of Pre-Trade Communications on LMEselect.

3 The Crossing Rule

51. As outlined in the White Paper, alongside the MVT Rule, the LME proposes to introduce a Crossing Rule applicable to LMEselect.
52. The Crossing Rule would aim at supporting Members' ability to offer risk prices in sub-MVT trades. The proposal is seeking to align the LME Rules applicable to LMEselect with peer markets which have mechanisms by which trades can be bilaterally negotiated, and then exposed to the central electronic venue to maximise price competition and transparency.



(a) Proposed Rulebook changes

53. The Crossing Rule would enable Members, if they decide to utilise it, to cross in LMEselect an order resulting from (permitted) Pre-Trade Communications in accordance with the methods of crossing as specified by the LME in the Crossing Guidance. To cross, all orders entered on LMEselect would be entered at the clean price (that is net of commissions, credit charges and or fees).
54. A simple way of thinking about the proposed Crossing Rule is that it would act as an exception to the proposed prohibition on Pre-Trade Communications on LMEselect and the proposed MVT Rule. More specifically:
- (a) First, as an exception to the proposed prohibition on Pre-Trade Communications on LMEselect, the Crossing Rule would allow Members to pre-negotiate a trade bilaterally with their counterpart before inputting their order on LMEselect (and then execute the Agreed Trade in the inter-office market).
 - (b) Second, as an exception to the MVT Rule, where the Member would have first executed in LMEselect an Agreed Trade in compliance with a specified method of crossing, the Member would then be permitted to execute the Agreed Trade in the inter-office market even where that Agreed Trade is below the Threshold.
55. After having published the White Paper, as explained in the Update Document, the LME received feedback (in the BWG and bilaterally) that it should offer both automated and manual crossing functionalities. In response to this feedback, the LME is looking at technical solutions to offer an automated crossing functionality to the market, should it decide to go forward with the Crossing Rule proposal. The draft Crossing Guidance clarifies that DEA Clients would be able to manually cross their orders. For automated crosses however, the LME proposes to limit its availability to Members.
56. The proposed Crossing Rule, if introduced, would require consequential changes to Regulation 3.12 (*Agreed Trades as Gross Transactions*) in Part 3.
57. The Crossing Rule would also require consequential changes to Regulation 12.11 (*Order routing services (Direct Electronic Access)*) in Part 3 to clarify that the LMEselect Participants offering order-routing facilities to Clients shall ensure that their Client comply with the LME's Crossing Guidance.
58. The LME also proposes to introduce a new rule requiring Members to keep accurate, complete and accessibly documentary evidence showing their continued compliance with the Crossing Rule (please see the proposed changes to Regulation 3.7 Part 3 on the *Maintenance of Records*).
59. Finally, the LME attaches a draft of the technical guidance on the Crossing Rule (the “**Crossing Guidance**”) in Annex 4 to set out its thinking to date in this area. For the avoidance of doubt, should the Crossing Rule be adopted, there should be no assumption that there will be future consultations on revisions to this guidance.

(b) Questions

Q.8: Do you agree with the overall approach to implement the proposed Crossing Rule? If not, please explain why.

Q.9: Do you agree that manual crosses should be open to both Members and DEA Clients but that automated crosses (referred to as “the LMEselect Crossing Order Type” in the draft Crossing Guidance) should be limited to Members only, and not be extended to DEA Clients? If not, please explain why.

Q.10: In your opinion are there any *alternative* or *additional* measures to the proposed introduction of a Crossing Rule the LME should consider?

More generally, the LME invites the provision of relevant analysis or underlying documentary evidence in relation to its proposal to introduce a new Crossing Rule on LMEselect.

The Consultation process and timelines

60. The Consultation is open to all interested parties, including, without limitation, Members, Clients of Members and Affiliates of Members.



61. Formal responses should be submitted in writing. This Consultation will remain open for responses until close of business on **13 June 2025**. The LME shall not be under any obligation to consider responses submitted after this time. The LME will take into account all responses received by the closing date.
62. Any market participant wishing to ask questions or to seek clarification on any issue covered by the Consultation, is asked to contact market.engagement@lme.com. Any interested party wishing to submit a response to the Consultation is asked to send it to consultation@lme.com.
63. Although the LME will consider responses submitted in any format, it would be helpful if respondents could reply to the numbered Consultation questions set out in this Notice.
64. The LME may need to share responses received with regulatory authorities, members of its group, and its legal or other professional advisors, or as required by law. Anonymised responses (verbatim or paraphrased) may be included in the Decision Notice stating the outcome of this Consultation. Apart from this, all responses will be treated in confidence.
65. Prior to becoming effective, any regulatory approvals that are required in respect of the proposals will be sought, and the implementation of any changes is subject to any relevant regulatory approvals.
66. Following consideration of any responses and following the close of this Consultation, the LME may implement:
 - (a) in respect of any or all of the proposals, that proposal, a modified version of that proposal;
 - (b) any alternative measures; or
 - (c) no measures.
67. Following this Consultation and once any required regulatory approvals are obtained, the LME will advise the market via one or more Notices when, if any, relevant changes will take effect.

Benefits and unintended consequences

68. The LME acknowledges that there may be some short-term costs incurred by Members and other users of the LME's prices in complying, or otherwise in connection, with the proposals and associated Rulebook amendments set out in this Consultation. This Consultation, as reflected by the questions posed, aim at gathering more information on these costs and the LME invites the provision of evidence of such costs. More generally, the LME believes that such costs would be outweighed by the benefits to the market as a whole arising from greater transparency and that the proposals are justified and serve the best interests of the membership and the LME ecosystem as a whole, and in ensuring that the LME continues to comply with its regulatory obligations.
69. The LME has not yet identified any unintended consequences not set out in this Consultation as a result of any of the proposals or related Rulebook amendments. However, the LME is interested in the views of respondents to this Consultation in this regard.

Jamie Turner
COO and Head of Trading

cc: Board directors
All committees