Update on Enhancing Liquidity

April 2025

An HKEX Company

SETTING THE GLOBAL STANDARD

Contents

1 Executive summary

In the LME White Paper on Enhancing Liquidity (the "**White Paper**") published in September 2024 via Notice 24/240, the LME set out its vision to implement a set of initiatives including a liquidity provider programme, the introduction of block thresholds, new trading functionality and market data changes, in its continued efforts to modernise its markets.

The LME would like to thank all Members, Clients and the broader market who have engaged with the LME since publishing the White Paper, in particular the 35 Members who joined the Blocks Working Group ("**BWG**") to explore and discuss the technical feasibility of implementing block thresholds.

The LME remains committed to modernising its market structure and delivering greater standardisation where possible, to enhance liquidity and transparency in its markets. The key objectives of the package of measures to enhance liquidity as outlined in the White Paper are to (1) increase price competition (2) enhance transparency (3) continue to support the physical market and (4) ensure fairness. These objectives have defined the overall approach described in this document and align with the regulatory direction of travel as outlined in the White Paper.

This document (the "**Update**") provides a broader update on the complete set of measures originally proposed in the White Paper, including detail on next steps and indicative timelines for the first phase of initiatives the LME proposes to progress.

A subset of those measures is subject to consultation as set out in Consultation Notice 25/083 (the "**Consultation**"), along with indicative rulebook changes required to enact the changes if the decision to proceed is made.

In a number of areas this Update also provides additional detail on the indicative long-term roadmap to give the market more clarity on the proposed direction of travel – notably in relation to (A) execution and booking for LME contracts and (B) OTC market considerations.

This Update outlines four key areas where the LME intends to progress initiatives relating to enhancing liquidity:

A. Execution and booking for LME contracts (including block thresholds and crossing rules)
B. OTC Market Considerations
C. Protecting the physical market
D. Enablers (including LP programme and tick size changes)

The LME intends to initially progress with a package of measures in phase 1 consisting of block thresholds and new crossing functionality (as described further in the Consultation). The LME will also make adjustments to the Financial OTC Booking Fee for instruments that could have traded on exchange and a number of measures to support the physical market as part of the first phase of enhancing liquidity measures. In addition, during this phase the LME will introduce a liquidity provider programme and amend its tick sizes to encourage positive behaviours. The LME will closely monitor the impact of its measures and is ready to consult on block-like rules for the OTC market if required.

In areas such as additional transparency requirements for inter-office trades and large-in-scale transparency waivers, the LME intends to deliver these in phase 2 to support market participants in managing the broader set of changes.

2 The White Paper Proposals

This Update provides detail on the LME's latest thinking in relation to all the initiatives originally included in the White Paper and should be read alongside the Consultation 25/083. The LME is proposing to implement the measures with a phased approach, the diagram below summarises the initiatives it intends to progress in phase 1 (subject to consultation where required and any necessary regulatory approvals).

	Phase 1	Phase 2
Execution and booking for LME contracts	Block trade thresholds	Enhancing market data transparency
	Pre-trade communications and crossing rules	
OTC market considerations	Block like rules for OTC	ready to consult if required
	★ Financial OTC Booking Fee changes	OTC transparency (trades and open interest)
		Market data fees for OTC platforms
Protecting the physical market	Exclude cash and daily dates from block thresholds	
	★ Short-dated carry definition change	
Enablers	LMEselect functionality *(GTCs, trade-at-settlement (TAS), tick size changes)*	LMEselect functionality *(SEP, implieds)*
	Liquidity provider programme	Large-in-scale deferral
		UOTR enhancements

Key ★ new measure not in 2024 white paper

Section A: Execution and booking for LME contracts

1. A1: Block thresholds (see Consultation Notice 25/083)

The LME is proposing the introduction of Minimum Volume Thresholds (“**MVT**”s) – also known as block thresholds on other markets – to ensure small trades that can reasonably be executed on LMEselect are exposed to maximum price competition and are made transparent in line with industry standards for futures exchanges.

The LME is proposing to implement MVTs for a set of liquid instruments, initially consisting 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). This would apply to Member-to-Member trades and Member-to-Client trades. It would apply only to trades executed in USD. The MVT would take the form of a new rule and accompanying Blocks Guidance (indicative drafts are set out in annexes to the Consultation).

In order to support the physical market, the LME proposes not to apply MVTs to daily prompts or spreads where one leg is a daily prompt. MVTs would also not apply to cash outright trades, or spread trades from cash to other prompt dates in order to support the cash price (more detail in section C below).

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), in particular because the nature of this business is such that two-way flow can build throughout the day and it would be operationally challenging to simultaneously execute all of the client business during the pricing window. The LME is of the view that where a Trade-at-Settlement (“**TAS**”) contract exists, that can be used throughout the day to expose such orders to greater price competition and increase transparency. The LME therefore intends for MVTs to not apply to MOC business in instruments for which there are no TAS contracts. Where a TAS contract exists any MOC business would be in scope of the proposed MVTs and would have to be crossed through the relevant TAS orderbook.

The White Paper included an indicative level of 10 lots across the base metals for which the threshold would apply. In general, the feedback received suggested that there should be differentiation across different metals, although respondents shared differing views on whether thresholds should be higher or lower. In response to this feedback, the LME is currently minded to allow greater granularity between metals which, based on the quantitative analysis, and taking into account factors such as bid/ask spreads, size in the book, average trade size and notional size, leads to an indicative proposal of 15 lots for Aluminium, 10 lots for Copper, Zinc and Lead and 5 lots for Nickel.

As explained in the Consultation, the LME has carefully considered all of the feedback provided on the parameters of the MVT and taken them into account. The LME considers that ultimately the parameters require expert judgment in calibrating the appropriate level, balancing the competing views provided in the feedback to the White Paper, its own liquidity analysis and other 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. For the avoidance of doubt, there should be no assumption that there will be future consultations on any revisions to the parameters of the MVT Rule were the LME to implement it following the Consultation. Nothing in the Consultation or in this Update Document (or otherwise) should be taken as indicating such an intention or commitment on the part of the LME.

The LME proposes a number of scenarios in which trades in liquid instruments would be permitted in the inter-office market where they are below the threshold including (i) where exceptions apply, that is (a) Client trades where a Member has executed an equivalent trade on LMEselect in the exact instrument(s) or (b) where a trade has been crossed on LMEselect; (ii) where technical exemptions apply such as options delta hedges, strips and allocations (such exemptions would be detailed in the Blocks Guidance – please refer to the indicative draft in the Consultation); or (iii) situations where the MVTs have been temporarily disapplied by the LME for all market participants (for instance should LMEselect become unavailable).

Members would continue to be required to maintain full audit and transaction history for all trades and orders and the LME proposes to clarify this obligation in the Rulebook. In the future the LME may look to more prescriptively define a mechanism by which Members must link trade components as part of the broader roadmap to evolve the way in which the execution and booking of LME Contracts take place.

More details on the above can be found in the Consultation.

2. A2: Pre-trade communication and crossing rule (see Consultation Notice 25/083)

As outlined in the White Paper, alongside the MVT the LME is proposing to introduce (a) a rule prohibiting pre-trade communications in LMEselect and (b) a Crossing Rule. These in combination will provide the ability to "cross" orders through LMEselect under certain circumstances and supports Members in being able to continue to offer risk prices in sizes below the MVT. This aligns to most 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.

First, the LME is proposing the introduction of a prohibition of pre-trade communications in relation to LMEselect that will apply to all LME Contracts and instruments. This is standard across most peer markets.

Second, the LME is proposing a Crossing Rule (accompanied by Crossing Guidance) which would define the specific ways in which permitted pre-trade communications would take place in relation to LMEselect.

The LME is proposing two crossing methods. The first is a manual solution ("LMEselect cross"), as described in the White Paper, where a Member can offer a price to a client but must then enter the client side (clean price – ex commission) into LMEselect and wait five seconds before entering the other side and generating a transparent LMEselect trade. Using this method it is possible for the Client to get an improvement if there is a better price already in LMEselect, however it is also possible the market moves and the member is unable to complete the cross. This was discussed in detail during the BWG meetings and was also discussed in wider market engagement, and the LME is mindful of the potential operational complexity and the desire from some Members to be able to ensure their clients receive a fill regardless of what happens on LMEselect.

In response to the feedback received, the LME is proposing to deliver an automated cross ("LMEselect cross order type") in addition to the manual solution. This new order type would automatically allow a Member to let the market know a cross is going to take place, then expose the client side to LMEselect and either (a) receive an improvement for the client if better prices come into LMEselect or (b) complete the cross at the previously indicated price level (clean price – ex commission). More detail can be found in the draft Crossing Guidance published alongside the Consultation.

3. A3: Enhancing practical market data transparency in the inter-office market

The White Paper outlined the need to ensure that all risk transfer trades in the inter-office market are booked and made practically transparent on the core LME market data feeds in a timely manner. This includes trades where Members internalise risk transfer and it is not currently booked in the LME systems or made transparent.

The proposal was therefore to mandate that all Client trades are booked into LME systems – in the exact instruments executed – and the LME is now describing this as a potential transparency registration.

While the LME believes that introducing a transparency registration requirement (in combination with related large-in-scale waivers) would be beneficial in terms of enhancing transparency and ensuring fairness, it is not proposing to introduce this measure in phase 1 of the enhancing liquidity delivery.

The potential technical implementation of a transparency registration solution was discussed in detail during the BWG sessions. It was suggested by some participants that the LME should simply look to publish the existing client cross data that it has, however this would not be effective because (i) a number of risk transfer trades are internalised by Members so are never booked (ii) due to the fact that Client crosses can be booked at an average price – they may reflect stale pricing by the time they are booked (iii) where a give-up is booked, it may take time for the give-up executor to receive the give-up and enter the resulting client cross, again resulting in stale pricing information. The LME's proposed transparency registration would require all risk transfer trades to be booked in 10 minutes and therefore would make the relevant information transparent in all of the (i)-(iii) above.

The LME notes that the core MVT Rule and Crossing Rule proposals would represent a significant step forward in terms of enhancing transparency of small orders in those instruments subject to MVT, and the LME is conscious of the overall volume of change represented by the initiatives in the White Paper. The LME is therefore of the view that the market would benefit from considering the transparency registration as part of phase 2 of the LME's evolution to the execution and booking of LME Contracts.

Section B: OTC market considerations

The White Paper outlined the LME's view that its market structure should ensure the playing field is as level as possible between the OTC market and the on-exchange market. Rules, fees and transparency requirements should not incentivise volume towards the OTC market to avoid exchange and other regulatory oversight, as this fragments liquidity and could negatively impact the orderliness of trading. It included proposals on block-like rule for OTC lookalikes, publishing OTC OI and market data fees for OTC single dealer platforms.

The LME has received significant feedback in these areas since publishing the White Paper and has taken this into account (along with all the feedback received in relation to OTC market considerations since it began discussing its market structure modernisation back in 2017) when shaping the roadmap of measures relating to the OTC market that it outlines in this document.

The LME carefully considered the feedback in relation to the proposed OTC rules, including a number of participants arguing that the risk of small sized business moving OTC was low due to the specific features of the OTC market (credit terms etc) versus the exchange traded market (due to the portability and risk management benefits of trading on exchange) that determine whether clients hold OTC or exchange traded contracts.

1. B1: Block-like rules for OTC lookalikes

In terms of block-like rules for OTC lookalikes, the LME remains of the view that it may in the future be beneficial to implement block-like rules for OTC lookalike contracts, however it is not proceeding with this in phase 1 of the enhancing liquidity delivery.

The LME has carefully considered the feedback received. For the moment, should the LME proceed with the introduction of block thresholds, the LME would closely monitor the impact of these measures on its markets. The LME would only consider consulting on implementing block-like rules for OTC lookalike contracts if it were to detect behaviour that could jeopardise liquidity or price formation in, or otherwise affect the orderliness of, the central market.

The LME notes that it would be in a position to move forward quickly with the steps towards the introduction of block-like rules for OTC lookalikes if it considered the circumstances warranted this.

2. B2: Financial OTC Booking Fee change

While the LME is not immediately intending to implement the block-like rules for OTC lookalikes, it does believe that it is right to correctly incentivise behaviour that positively contributes to central price formation, transparency and market integrity. It therefore intends to increase the Financial OTC Booking Fee ("**FOTCBF**"), for OTC lookalikes. Any OTC averaging will be unaffected by the fee change.

There are two key benefits for the market to this: (1) it acts as a disincentive for business to move OTC in order to avoid exchange controls and rules including potential MVTs along with existing position management and volatility controls – which could add to systemic risk; and (2) an increased fee level ensures that the fee paid is more reflective of the value obtained by users from using this price, particularly in circumstances where, unlike those trading on exchange, users are not contributing to price formation, transparency and market integrity. Given this, the LME intends to increase the fee for OTC lookalikes to be twice that of exchange business, but OTC business that cannot trade on exchange such as averaging would continue at the current fee level.

There will also be changes to the FOTCBF reporting requirements in order to differentiate between lookalike and non-lookalike transactions.

3. B3: OTC transparency (trade and open interest)

Trade transparency

A number of market participants suggested that an alternative to block-like rules for OTC lookalikes would be enhancing trade level transparency for OTC trades. If such data was of sufficient quality and completeness and was published, the LME is of the view that it could positively enhance the transparency of the OTC market. However, such data would not directly increase price competition.

In the future the LME does believe that it would be beneficial to require the reporting of OTC trades intraday on a trade-by-trade basis, and that making this transparent intraday would further level the playing field and ensure fairness. It is likely this would initially focus on a set of liquid instruments at the front of the curve.

Open interest ("OI")

The White Paper introduced the potential for the LME to publish OTC OI, noting that the LME believes this could be beneficial and aligned to its requirements to maintain orderly markets. However, the LME is cognisant of the sensitivity and confidentiality of such data, therefore any publication of OTC OI would need to be sufficiently aggregated and anonymised, as well as accurate.

The LME does believe it would also be beneficial to publish an OTC OI figure in the future, however it is not progressing this in phase 1. The LME intends to continue to engage with the market on this initiative in order to consider the optimal design such as what level of granularity would be appropriate in order to protect the anonymity of positions and provision of liquidity.

The LME recognises that there are strong views from the market on this topic. It is argued by some that positions should be bucketed to avoid giving away details of individual positions and beyond a certain point on the curve, where instruments are less liquid, there should be limited detail or no transparency. The LME is minded to consider aggregating and publishing weekly OTC OI by metal, with everything in the first six months bucketed together initially and nothing beyond that point.

4. B4: Market data fees for OTC platforms

As outlined in the White Paper, the LME is of the view that the cost of accessing and distributing data on Member-to-Client platforms that reference LME prices, or are derived using LME prices or settle using the LME infrastructure OTC contract data should align to the costs of similar LME exchange data.

The LME is not proposing any changes in this regard as part of phase 1 but will continue to consider this in any future changes or enhancements to its market data policies.

Section C: protecting the physical market

The LME remains committed to serving and supporting the physical market; the relevance of LME prices in physical contracts is fundamental and the participation of the physical community in the LME ecosystem is a key strength. There are unique features of the LME market that attract physical participants – including the fact the LME determines a daily Cash Official Price used in many physical contracts and referenced in averaging contracts, and the daily date structure allowing positions to be aligned to specific dates.

1. C1: Protecting the cash price (see Consultation Notice 25/083)

The proposed initiatives to enhance liquidity are carefully designed to support the cash price, with cash outright trades exempt from the MVT along with any spread trade where cash is one leg. This is to ensure that where participants want to execute cash they can continue to do so in any size in the inter-office market.

In addition, the intended FOTCBF increase outlined in section B2 above will not apply to OTC averaging trades, the majority of which reference the LME Cash Official Price.

The LME is aware of the argument that if its efforts to enhance liquidity ultimately result in more monthly liquidity, then it could impact cash liquidity due to the reduction of residual daily OI. The LME is confident that demand to trade cash is primarily driven by the fact the LME price is embedded in physical contracts and averaging rather than resulting from residual OI. The LME Cash Official Price is a globally trusted reference price, that trust is built on the robustness of the LME's price discovery process and the fact prices reflect the LME's global physical network of warehouses, responsible sourcing standards and long history of pricing metals.

2. C2: Short-dated carry definition change

The LME date structure allows positions to be held on specific daily dates to support participants in aligning hedges with physical contracts or shipments. This is a positive and unique feature of the LME market and the LME remains committed to the date structure.

In order to support the continued provision of liquidity and trading in these daily dates, the LME intends to expand the short-dated carry definition, which will reduce the fees for certain daily spread trades regardless of whether they are executed on LMEselect or inter-office. The inter-office market remains crucial for the LME ecosystem, in particular for larger or more complex trades but also for daily dates where the large number of permutations and liquidity profile means it is not possible to build onscreen two-way liquidity in all instruments. The LME intends to initially go-live with this change for one year before assessing its impact with the potential to continue if it is still positively impacting liquidity.

Currently, a short-dated carry is defined as a carry trade where the prompt dates of both legs are within 15 calendar days of the TOM date[1] (T+1 to T+16). The LME intends to expand the definition of a short-dated carry to include any carry trade where the prompt dates of both legs are within 15 calendar days of each other and are both within the first 60 calendar days[2].

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[1] TOM is defined as the next available prompt date from the trading date.

[2] For the avoidance of doubt, there is no change to the medium or long dated carry definitions.

Section D: enablers for enhancing liquidity

A number of other initiatives in the White Paper will help support the growth in liquidity that results from implementing block thresholds, in particular implementing an LP Programme and updating the tick sizes for spread instruments to encourage positive behaviour. The LME intends to deliver both of these ahead of or alongside block thresholds, before continuing to deliver other functionality such as TAS and additional implied functionality on the new LMEselect v10 trading platform.

1. D1: Liquidity provider programme

The LME is of the view that as part of the broader package of measures to enhance liquidity it will be beneficial to implement a liquidity provider programme ("**LP Programme**"). Details of this LP Programme will be announced separately via Notice.

As outlined in the White Paper, the LP programme will initially focus on the spreads from 3-month to the nearby monthly dates and some monthly-to-monthly spreads, directly supporting liquidity in these instruments and indirectly supporting liquidity in the monthly outright contracts via implied pricing. It is the LME's intention for the programme to apply to Aluminium, Copper, Zinc, Nickel and Lead with consideration for some incentivisation during Asian hours trading.

It is important to note that the LP Programme is a crucial part of the package of measures and both supports blocks (by improving the consistency of electronic liquidity) but is equally supported by other measures such as transparency enhancements that enable participants to access all available relevant pricing information in order to quote competitively onscreen.

The LME therefore intends to align the LP programme with the delivery of block thresholds within phase 1 of the overall enhancing liquidity delivery.

2. D2. LMEselect v10 functionality

Good-till-cancelled orders

Good-till-cancelled ("GTC") orders are now available on all instruments including all spread instruments. This is a key functional benefit of LMEselect v10 and supports the pooling of liquidity in spread and outright orderbooks.

Trade-at-settlement functionality

As outlined in the White Paper, the LME intends to re-enable TAS on Nickel 3-month and roll TAS out to the 3-month contracts for Aluminium, Copper, Zinc, Lead and Tin, which it plans to do within phase 1 of the enhancing liquidity delivery following the successful go-live of LMEselect v10. The LME will then consider supplementing this with TAS on a limited number of monthly outright contracts (likely month 2 and month 3 and month 4 initially).

As per section A1, the LME intends to ensure that where TAS exists, MOC orders in those instruments adhere to the MVT where applicable. MOC orders below the MVT can be crossed through the relevant TAS orderbook.

Tick size change

As outlined in the White Paper, it is important that the LME market microstructure is supportive of "positive" behaviour from systematic / algorithmic traders. Optimal tick size calibration is a key component of the package of measures to enhance liquidity and the LME aims to implement this ahead of delivering block thresholds as part of phase 1.

The LME proposed revised tick sizes for certain spread instruments. This is designed to disincentivise negative trading behaviours where participants marginally improve on existing orders in the orderbook providing the impression of low levels of liquidity at the top of the order book.

The feedback received in relation to this initiative was very supportive. One point of detail was the proposed tick size for spreads in Nickel and Tin. The White Paper suggested a tick size of $2.50 however many felt that a $1 tick size was more suitable. The LME has conducted additional analysis on orderbook activity and intends to revise the proposed tick sizes accordingly.

Current tick sizes

Current

Metal	Outright	Spreads
Aluminium	0.50	**0.01**
Copper	0.50	**0.01**
Zinc	0.50	**0.01**
Nickel	5.00	**0.01**
Lead	0.50	**0.01**
Tin	5.00	**0.01**

Revised proposed spread tick size changes

Metal	3M-3W or 3W-3W	Other spreads at front of the curve
Aluminium	**0.25**	**0.01**
Copper	**0.25**	**0.01**
Zinc	**0.25**	**0.01**
Nickel	**1.00**	**0.01**
Lead	**0.25**	**0.01**
Tin	**1.00**	**0.01**

Other LMEselect v10 follow-on functionality

The LME also intends to deliver Self Execution Prevention ("**SEP**"), also known as self match prevention ("**SMP"**) to support electronic liquidity providers, along with additional implied functionality to support implying between spreads. This additional functionality is not a prerequisite for phase 1 of the enhancing liquidity delivery but remains a priority for follow-on functionality to support the continued growth in electronic liquidity and will be delivered as soon as practicable.

3. D3: Large-in-scale deferral

The White Paper proposed that alongside the additional market data transparency requirements it may be beneficial to introduce large-in-scale ("**LIS**") transaction waivers for futures that would delay transparency for large trades in order to support liquidity provision.

The LME remains of the view that if it were to introduce additional transparency requirements as outlined in section A3 above, then it would be beneficial to also introduce LIS transaction waivers. However, this will be considered in phase 2 of the enhancing liquidity delivery.

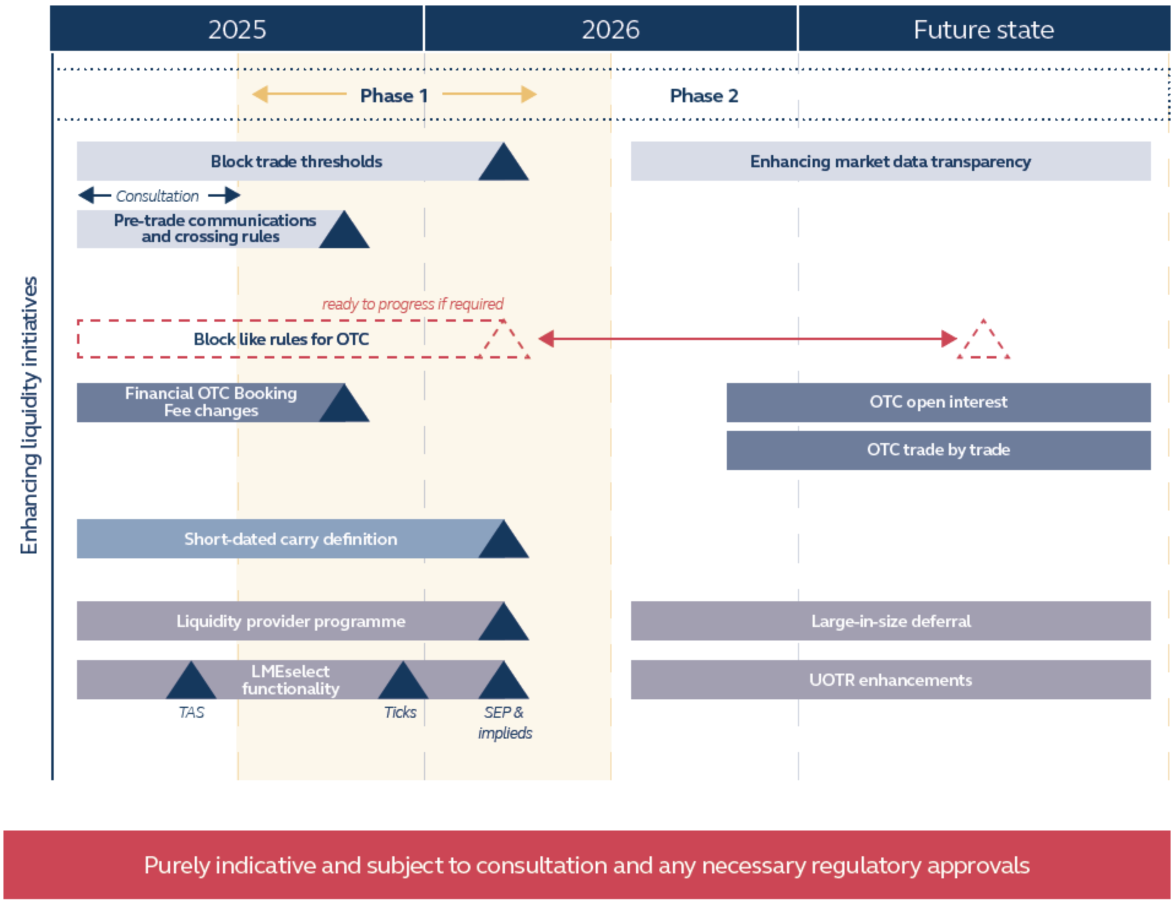
The LME received feedback that suggested such LIS thresholds should be differentiated by metal, by outright vs spread, and by tenor with two buckets (likely the front 6 months and then the rest of curve) with the LIS threshold levels being lower for the longer dated bucket of each metal.

4. **D4: Unexecuted order to trade ratio**

As outlined in the White Paper, the LME intends to re-assess its unexecuted order to trade ratio ("**UOTR**") policy including areas such as the level of calculation (currently applied at Member level not FIX session or client level) and the UOTR levels themselves. The LME will consider this as part of phase 2 of the enhancing liquidity delivery.

3 Sequencing and timeline

The LME is proposing a phased approach to deliver the enhancing measures with the initial phase beginning in late 2025 and running into the first half of 2026 and the second phase planned for the second half of 2026 (subject to consultation where required and any necessary regulatory approvals).



This timeline is provided purely to illustrate potential sequencing and is subject to consultation where required and any necessary regulatory approvals. Further updates on the timeline will be provided in due course and the LME reserves the right to re-sequence the measures should it deem it appropriate to do so.

4 Next steps

The purpose of this Update is to outline the LME's latest thinking on all the initiatives within the White Paper and provide information on the proposed phasing of initiatives to give market participants additional detail to support preparing for these changes. While this is not a discussion paper nor a consultation, the LME welcomes feedback in any area. Stakeholders can reach out to their existing contacts or contact market.engagement@lme.com.

It should again be noted that some future initiatives may require additional rulebook consultations, and the LME will, where appropriate, provide further details on any such rulebook consultations via market Notice. Some initiatives may also be subject to regulatory approvals.