

Policy Relating to Regulatory Position Limits and Exemptions



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Introduction

1. This policy sets out the LME's Rules concerning Regulatory Position Limits and Exemptions in compliance with FCA MAR 10 rules¹.
2. This policy is subject to the exercise by the LME of any of its powers in order to ensure compliance with the Rules set out in this policy, taking any such steps or giving any such directions to promote and/or maintain market orderliness.
3. Members and Persons Subject to the Rules shall comply with the Rules set out in this policy at all times. While Clients of Members are expected to comply with those Rules and fully cooperate with the LME to this effect, Members shall take reasonable measures and reasonable steps for ensuring that their Clients comply with the Rules set out in this policy at all times. Failure to do so by the Member may be considered a breach of the Rules.
4. For the purposes of this policy the LME shall treat Confidential Information in accordance with Regulation 21 of Part 2 of the LME Rulebook.

Defined Terms

5. Capitalised terms used in this policy shall have the meaning given to them in the LME's Rules and Regulations unless expressly stated otherwise herein.

Regulatory Position Limits and Exemptions

6. To ensure compliance with the Rules including those set out in this policy, Members are required to provide to the LME certain information on a daily basis including but not limited to position reports as set out in the Rules and in the Policy Relating to Position Management Arrangements.

Contracts Subject to Regulatory Position Limits and Exemptions

7. The LME shall apply Regulatory Position Limits to Contracts identified as Critical Contracts or Related Contracts.
8. The Critical and Related Contracts subject to Regulatory Position Limits are set out below:

Critical Contracts	Related Contracts
Futures Contracts:	Options of the Critical Contract
LME Aluminium (AH);	Traded Average Price Options (TAPOs) of the Critical Contract
LME Copper (CA);	Trade at Settlement (TAS) of the Critical Contract
LME Lead (PB);	Monthly Average Futures (MAF) of the Critical Contract – in particular:
LME Nickel (NI);	• LME Aluminium (OA)
LME Tin (SN);	• LME Copper (OC)
LME Zinc (ZS).	• LME Nickel (ON)

¹ The FCA rules set out in chapter 10 of the Market Conduct (MAR) Sourcebook of the FCA Handbook (as may be updated or replaced from time to time) and any applicable guidance published by the FCA from time to time, including but not limited to supervisory findings.



	<ul style="list-style-type: none">• LME Lead (OP)• LME Tin (OS)• LME Zinc (OZ)
	Minis of Critical Contract – in particular: <ul style="list-style-type: none">• LME Aluminium (MA)• LME Copper (MC)• LME Zinc (MZ)

9. Where the LME considers that an additional Contract may amount to a Critical Contract, the LME shall promptly notify the FCA. In accordance with applicable laws and regulations, market participants shall have at least 45 days beginning with the date on which the FCA publishes a notice to submit a response to the FCA on the proposed determination. Subject to the outcome of the FCA's consultation, the LME shall establish and apply a Regulatory Position Limit in relation to the new Critical Contract with effect from the date such Contract becomes a Critical Contract.
10. The LME shall continue to monitor all Contracts and where the LME believes it to be appropriate to modify or amend the list outlined above concerning Related Contracts, the LME shall promptly notify the FCA and shall amend the list of Related Contracts by Notice and update this policy.

Regulatory Position Limits

Calibration and publication

11. The LME shall publish its Regulatory Position Limits in Schedule 1 of this policy.
12. The LME shall keep the Regulatory Position Limits under review, including reviewing them periodically (at least on an annual basis) to ensure they remain, in the opinion of the LME, appropriate. Without prejudice to any other Rule, before imposing a new Limit or amending an existing Limit, the LME shall notify the FCA and publicly consult in accordance with its Rules, unless it is not reasonably practicable to do so.
13. Without prejudice to any other Rule, where the LME determines in its sole and absolute discretion that it is necessary or desirable to maintain market orderliness or otherwise comply with its regulatory obligations, it may amend, modify, suspend, terminate or waive the application of a Regulatory Position Limit without prior notification or consultation. In such cases, the LME shall make the FCA and market participants aware of such a change as soon as it is practicable to do so. Where the LME amends a Regulatory Position Limit to a lower level, market participants shall be solely responsible for reducing their positions to comply with that new level (without causing any market disorderliness).
14. The FCA may exceptionally, by giving directions, establish new Position Limits in respect of a Contract. In these circumstances the LME, working with the FCA, shall ensure that Members, Persons Subject to the Rules and Clients are made aware of such new FCA limits as soon as is reasonably practicable.
15. Members, Persons Subject to the Rules and Clients shall comply with and monitor their positions against these FCA limits at all times as if they were Regulatory Position Limits.

General

16. The LME shall apply its Regulatory Position Limits to all positions in Critical and Related Contracts held by a Member, Person Subject to the Rules, Client or any other person on a non-discriminatory basis.



17. Members and Persons Subject to the Rules shall ensure that their positions in Critical and Related Contracts are less than or equal to a Regulatory Position Limit, at all times, except where their position benefits from a valid Exemption granted by the LME ("**Exempt Positions**").
18. To be clear, the LME does not consider that the "at all times" requirement under the Rules should be construed as imposing a real-time monitoring obligation on Members and Person Subject to the Rules. Rather, the requirement should be understood as imposing an obligation to monitor positions on a timely basis. Members and Person Subject to the Rules should therefore ensure that the combined effect of their systems, controls and processes relating to position monitoring and management is sufficient to ensure ongoing compliance with the Rules "at all times".
19. In relation to Clients of Members, Members shall ensure that positions held by their Clients in Critical and Related Contracts are less than or equal to a Regulatory Position Limit, at all times, except where their position is an Exempt Position. For this purpose, Members shall monitor and identify those Clients' positions which exceed a Regulatory Position Limit and immediately notify the LME (see below). This immediacy requirement should be read in its ordinary meaning and should not be understood as imposing a real-time monitoring obligation.
20. Members and Persons Subject to the Rules must comply with any directions issued by the LME (including through the Special Committee) as specified by Notice or otherwise from time to time.
21. In relation to Clients of Members, the LME or the Special Committee may give directions to a Client via one or more Members with whom the Client has Client Contracts. In that case each Member shall be responsible and fully liable for ensuring that their Client complies with such directions and any failure to do so may be deemed a breach of the Rules. Members shall have arrangements in place with their Clients for this purpose.
22. Members are responsible for monitoring open positions and must have appropriate systems and controls in order to monitor their positions and their Clients' positions at all times.
23. Persons Subject to the Rules are responsible for monitoring their open positions and must have appropriate management control and oversight to comply with the Regulatory Position Limits at all times.
24. Members, Person Subject to the Rules and Clients are reminded that Accountability Thresholds apply to positions in Critical and Related Contracts. The Rules applicable to Accountability Thresholds are set out in the LME's Policy Relating to Position Management Arrangements and other Rules specified by the LME from time to time.

Notification and provision of information requirements

25. Where a position in a Critical Contract and Related Contract held by a Member or a Person Subject to the Rules breaches a Regulatory Position Limit without a valid Exemption, the Member or Person Subject to the Rules shall immediately notify the LME directly of such fact and proactively provide the LME with reasonable details of the cause of such breach and their plan to reduce the position below the applicable Regulatory Position Limit in an orderly manner.
26. In relation to Clients, the LME expects a Client to notify it immediately and directly of a breach of a Regulatory Position Limit (in particular where it holds positions in Critical and Related Contracts across several Members). In any event a Member must immediately notify the LME of the breach, where, based on the information available to the Member at the time, its Client's positions are in excess of a Regulatory Position Limit.
27. The requirement to immediately notify the LME should be read in its ordinary meaning and should not be understood as imposing a real-time monitoring obligation.
28. Clients must provide the LME (either directly or via their Member) with all reasonable details of the cause of such breach and their plan to reduce the position below the applicable Regulatory Position Limit in an orderly manner.
29. All notifications shall be made in writing to position.surveillance@lme.com.



30. Without prejudice to the foregoing, the LME may in its sole and absolute discretion request, and Members, Persons Subject to the Rules and Clients (either directly or via their Member) shall promptly provide, any other information in relation to the relevant breach that the LME determines is necessary or helpful to its assessment of the situation and/or to enable it to fulfil its regulatory obligations.

Action and enforcement

31. In the event of a breach of a Regulatory Position Limit, Members and Persons Subject to the Rules shall be solely responsible for reducing their position back below the applicable Regulatory Position Limit in an orderly manner. Members shall take reasonable measures and reasonable steps to ensure that their Clients reduce their positions in the same way.
32. A breach of a Regulatory Position Limit by a Member or a Person Subject to the Rules and/or a failure to immediately notify the LME of such breach and/or a failure to comply with a direction given by the LME (either directly or through the Special Committee) **shall** be treated as a breach of the Rules and therefore as an Act of Misconduct. Such breaches may be subject to a fixed penalty charge or subject to an Investigation and disciplinary proceedings as outlined in the Rulebook.
33. In relation to Clients of Members or any other person a position which exceeds a Regulatory Position Limit and/or a failure to comply with a direction via their Member(s) given by the LME (directly or through the Special Committee) **may** result in the application of the Client of Concern process as described in the Rulebook. The LME **may** deem a Member to have breached the Rules if its Client holds a position (excluding Exempt Positions) in excess of a Regulatory Position Limit and/or its Client fails to comply with a direction given by the LME (either directly or through the Special Committee). The LME **shall deem** a Member to have breached the Rules if the Member fails to notify the LME immediately if a Client's position breaches a Regulatory Position Limit and the Member should have been in the position to notify the LME based on the information available to the Member at the time.

Period of Regulatory Position Limits

34. “**Spot Month Contracts**” are defined as each individual Prompt Date and expiry date up to and including the next 3rd Wednesday Prompt Date (sometimes referred to as **M1**) which is not the next available Prompt Date. When the 3rd Wednesday Future becomes the tom Contract, the Spot Month Contracts would shift to include the following 3rd Wednesday. Thus, the Spot Month Contracts would only include two 3rd Wednesday Prompt Dates when the first is the tom Contract.
35. “**Other Months’ Contracts**” are defined as each individual Prompt Date and expiry after the Spot Month Contracts. This includes the Critical Contract's last applicable tradeable Prompt Date and expiry.
36. Regulatory Position Limits apply to Spot Month Contracts and Other Months’ Contracts as set out in Schedule 1.

Netting and aggregation for the purposes of Regulatory Position Limits

37. A Member, Person Subject to the Rules and Client must determine their net position held separately in the Spot Month Contracts and Other Months’ Contracts. Long and short positions must be netted to determine the net position. A Member, Person Subject to the Rules and Client must exclude Exempt Positions when making such determinations as per the Rule set out below in paragraph 49.
38. For the purpose of assessing a position against a Regulatory Position Limit, positions shall not be netted across different metals.



39. For the purposes of calculating positions in any Critical and Related Contract to comply with a Regulatory Position Limit, the following netting methodology shall apply:

Contract	Netting Method
Futures Contract	positions expressed in lots
MAF Contract	positions expressed in lots
TAS Contract	positions expressed in lots
Options Contract	positions converted into a Futures equivalent by applying a delta value to each position
TAPO Contract	positions converted into a Futures equivalent by applying a delta value to each position
LMEmini Futures Contract	positions converted to adjust for the reduced tonnage of the LMEmini Contract (for example where the LMEmini Futures Contract 'lot' is 5MT, the position would be a fifth of the relevant Futures Contract 25MT 'lot')

40. For the purposes of complying with the Regulatory Position Limits that apply respectively to the Spot Month Contracts and the Other Months' Contracts, Members, Persons Subject to the Rules and Clients shall calculate their net position held:
- (a) at an individual entity (position holder) level; and
 - (b) at an aggregated group level (that is their own net positions netted with positions held on their behalf at an aggregated group level).
41. A parent undertaking shall determine its net position by aggregating its own net position and the net positions of each of its subsidiary undertakings. The parent undertaking of a manager of a collective investment undertaking shall not aggregate positions held in any collective investment undertaking where it does not influence investment decisions in respect of opening, holding or closing of those positions.
42. For the purposes of calculating positions in each of the Spot Month Contracts or the Other Months' Contracts, position holders and parent undertakings shall aggregate their net positions across all relevant Prompt Dates and expiry dates in the Critical and Related Contracts.
43. Where net positions are aggregated as per paragraph 42, the Member, Client or Person Subject to the Rules remains responsible for ensuring that its positions in each of the Critical Contract and Related Contracts do not create a risk of disorderly pricing or settlement conditions of such Contracts.
44. Without prejudice to any other Rule, where the LME determines in its sole and absolute discretion that the netting of positions in relation to a Related Contract will increase the likelihood of disorderly pricing or settlement conditions, it shall inform the relevant Member(s), Person(s) Subject to the Rules and/or Client(s), as the case may be, and prescribe how their positions should be aggregated for the purposes of discharging their obligation to adhere to the Regulatory Position Limit(s).

Exemptions

General

45. For the purposes of holding a position in Critical and Related Contracts in excess of a Regulatory Position Limit in compliance with the Rules, a Member, a Person Subject to the Rules or a Client may apply to the LME for an Exemption to a Regulatory Position Limit or renew it using the prescribed method as published by the LME from time to time "**Exemption Application**", provided that they are a **non-financial entity** or a **financial entity** (as defined by MAR10) and that they and their positions are eligible



for the Exemption. The granting of an Exemption and the level of the Exemption Ceiling shall be at the sole discretion of the LME. No Member, Client or Person Subject to the Rule shall be entitled to an Exemption and a specific level of Exemption Ceiling.

46. Members, Persons Subject to the Rules and Clients are solely responsible for determining whether they need to apply for an Exemption, whether they need to renew an Exemption and where appropriate, ensuring they have a valid Exemption at all times. Members, Persons Subject to the Rules and Clients shall provide all necessary information and documentation including those required by the LME on a timely basis to enable the LME to process the application. Where applying for a Pass-Through Exemption, Members, Persons Subject to the Rules and Clients must represent and warrant on behalf of themselves and must ensure that the underlying client warrants that all information provided is accurate and complete.
47. The LME has the discretionary power to grant or reject Exemptions. Subject to paragraph 48 below, Exemptions will be granted for a maximum period of 12 months and will expire after that period. Exemptions shall remain valid until they expire or are revoked or modified in accordance with the Rules.
48. Without prejudice to any other Rule, the LME may in its sole and absolute discretion extend the validity period of an Exemption beyond 12 months for a limited period of time (as determined by the LME) where, in its opinion such extension is necessary or desirable to either maintain market orderliness or to otherwise enable it to comply with its regulatory obligations.
49. If a Member, Person Subject to the Rules or Client is granted an Exemption, Exempt Positions shall not count towards the net position held at an individual entity (position holder) level or at an aggregated group (parent undertaking) level with respect to Regulatory Position Limits.
50. Exemptions and Exemption Ceilings are not transferrable.
51. Exemptions and Exemption Ceilings are specific to an Exemption Holder and to the specific Critical Contract and its Related Contracts and specific period (Spot Month Contracts or Other Months' Contracts).
52. A breach of an Exemption Ceiling or of a condition of an Exemption by an Exemption Holder shall be treated as a breach of the Rules and therefore as an Act of Misconduct. Such breaches may be subject to a fixed penalty charge or subject to an Investigation and disciplinary proceedings as outlined in the Rulebook.

Exemption Ceilings

53. Where the LME grants an Exemption, it shall set conditions including a restriction on the size of a **total position** (i.e. those which are Exempt Positions and those which are not) "**Exemption Ceiling**". The level of an Exemption Ceiling shall be set at the discretion of the LME.
54. For the purpose of setting the Exemption Ceiling, the LME shall review each request for an Exemption Ceiling using the following factors:
 - (a) the evidence and justification provided for:
 - i. the Exemption;
 - ii. the requested level of the Exemption Ceiling (including its size in comparison to the relevant Regulatory Position Limit);
 - iii. the ability to unwind the position in an orderly way;
 - iv. position management and oversight controls;
 - (b) the Contract characteristics (including but not limited to deliverable supply, open interest, maturity, volatility and liquidity);
 - (c) participant information:
 - i. history of positions in Contracts and/or over-the-counter contracts;
 - ii. historic engagement with the LME (including compliance with the Rules of the LME and the spirit thereof);



- iii. risk-management approach;
 - iv. suitability;
 - v. credit worthiness;
 - vi. Clearing Member(s) arrangements;
- (d) the impact of the Exemption Ceiling on the LME's regulatory requirement including its obligation to promote and maintain orderly markets; and
- (e) any other factors that the LME in its sole discretion deems relevant to the setting of the Exemption Ceiling including any information received during the Exemption Application process.

Powers of revocation or modification

55. Without prejudice to any other Rule, the LME may revoke an Exemption or modify an Exemption Ceiling and/or any condition attached to such Exemption at its sole discretion at any time with immediate effect or with effect from such date that the LME shall specify where it reasonably believes that:
- (a) an Exemption Holder has breached (irrespective of whether that breach is on-going at the time of the LME's decision to revoke or modify):
 - i. a condition of its Exemption; and/or
 - ii. its Exemption Ceiling; and/or
 - iii. any other applicable Rule,
- and/or
- (b) the Exemption Ceiling presents a risk to market orderliness; and/or
 - (c) there has been a significant change to the information provided to the LME during the application process.
56. In the event that the LME modifies or revokes an Exemption Ceiling it shall notify the Exemption Holder in writing and communicate when the modification or revocation shall come into effect. The LME may make such modification or revocation effective immediately (for example, but not limited to, to maintain an orderly market). Where the LME modifies or revokes an Exemption Ceiling, the Exemption Holder shall be solely responsible for reducing their position below the applicable Exemption Ceiling or Regulatory Position Limit, as the case may be, while ensuring market orderliness and/or ensuring that it does not act in a way that could cause the LME to breach any applicable law or regulation to which it is subject.
57. The LME shall promptly notify the Exemption Holder of the revocation or modification of an Exemption, Exemption Ceiling or condition thereof. In the case of a Person Subject to the Rules, the LME may notify relevant Members of such revocation or modification in accordance with Regulation 21 of Part 2 of the Rulebook.
58. In the event that the LME revokes or modifies Exemption, Exemption Ceiling and/or any condition attached to such Exemption or Exemption Ceiling, the Exemption Holder shall remain solely responsible for managing their positions in an orderly way before such revocation or modification comes into effect. Any discussion or communication with the LME for these purposes is not, and should not be construed as, advice, or a waiver of such obligation, or a waiver of the LME's right to exercise any of its powers under the Rules. The LME may require the Exemption Holder to provide details as to how they intend to achieve this and the Exemption Holder shall promptly provide such details.
59. During the period of validity of an Exemption, an Exemption Holder may request at any time an amendment to the level of its Exemption Ceiling. Such request would have to be justified and supported with relevant evidence and would amount to a new Exemption Application for consideration by the LME.



Exemption conditions (general)

60. All Exemptions are subject to the following conditions:

Condition	Description
Condition 1	An Exemption remains valid provided that the Exemption Holder is and remains a Member or a Person Subject to the Rules throughout the entire period of validity of the Exemption. ²
Condition 2	The total positions (those which are Exempt Positions and those which are not) held by the Exemption Holder must remain below or equal to an Exemption Ceiling.
Condition 3	An Exemption Holder must monitor, net and aggregate its total positions (i.e. those which are Exempt Positions and those which are not). An Exemption Holder must use the same method of netting and aggregation as described in the paragraphs of the Policy under the sub-title “Netting and aggregating for Regulatory Position Limits” but must include in its calculations Exempt positions.
Condition 4	<p>Where an Exemption Holder is a Person Subject to the Rules, it is responsible for monitoring its open positions and have appropriate management control and oversight to comply with all of the conditions of an Exemption including the Exemption Ceiling at all times.</p> <p>Where an Exemption Holder is a Member, it is responsible for monitoring its open positions and have appropriate systems and controls to comply with all of the conditions of an Exemption including the Exemption Ceiling at all times.</p>
Condition 5	An Exemption Holder must not provide false, misleading, inaccurate, erroneous or late information to the LME, including but not limited to, as part of its application for an Exemption (or renewal of such Exemption).
Condition 6	An Exemption Holder must not have engage in conduct which has brought or may be likely to bring the LME or any of its markets into disrepute. An Exemption Holder must not act in a

² Pursuant to its powers of revocation, the LME shall revoke an Exemption if an Exemption Holder is not or ceases to be a Member or a Person Subject to the Rules during the period of validity of the Exemption. In such event, the LME shall notify the Exemption Holder in writing and communicate when the revocation shall come into effect. Before the revocation of an Exemption comes into effect, the Exemption Holder shall be solely responsible for reducing their position below the applicable Regulatory Position Limit in an orderly manner.



	way that could cause the LME to breach any applicable law or regulation to which it is subject.
Condition 7	An Exemption Holder must not engage in an Act of Misconduct.
Condition 8	In the event an Exemption is granted, the Exemption Holder must notify in writing, without delay, their Member(s) that they have an Exemption, the expiry date of the Exemption, the type of Exemption and the proportion of their position with that Member which benefits from the Exemption. Except where all (100%) of its positions benefit from a valid Exemption, an Exemption Holder must communicate to its Member(s) on a daily basis the proportion of each close of business position which benefits from an Exemption.
Condition 9	An Exemption Holder must notify the LME in writing to position.surveillance@lme.com promptly if there is a significant change to the nature or value of its commercial or trading activities and is relevant to the information provided when the Exemption was requested. This condition includes any information that the LME would reasonably expect to be advised of which may impact the LME's decision as to whether it is appropriate to grant, renew modify or revoke an Exemption.
Condition 10	In the event the total positions of an Exemption Holder breach an Exemption Ceiling, or in the event the Exemption Holder breaches any condition of its Exemption, the Exemption Holder must notify the LME in writing to position.surveillance@lme.com directly and immediately ³ . The Exemption Holder must provide the LME with reasonable details of the cause of such breach and the Exemption Holder's plans to remedy the breach.

61. A breach of a condition by an Exemption Holder may lead to the revocation of its Exemption by the LME. As noted above, a breach of a condition shall be treated as an Act of Misconduct resulting in a fixed penalty charge or the opening of an Investigation and disciplinary proceedings as outlined in the Rulebook.
62. The LME may, at its sole discretion, amend the above list of conditions (including, but not limited to adding conditions) depending on the circumstances of the Exemption Holder and the nature of the Exemption applied for.

³ This immediacy requirement should be read in its ordinary meaning and should not be understood as imposing a real-time monitoring obligation.



Exemption Applications – All Exemptions

63. Applicants must submit their Exemption Applications with all relevant evidence to the LME at position_surveillance@lme.com.
64. A person wishing to apply for an Exemption would be required to apply in their own name and would not be able to use another legal entity or natural person to do so.
65. The Exemption Application can be used to apply for, amend or cancel an Exemption. Applicants seeking to re-apply for an Exemption ahead of the 12-month expiry shall be responsible for providing an updated Exemption Application with all necessary updated information with sufficient time for the LME to undertake appropriate analysis.
66. The LME may, at its sole discretion, determine the criteria that apply to Exemption Applications. The criteria shall be set in Exemption Application forms.
67. Applicants must provide accurate, complete and detailed information and relevant supporting documentation which is current at the time of the Exemption Application and in relation to the period for which the Exemption is requested. Incomplete or inaccurate Exemption Applications may be rejected or may cause significant delays to the Exemption being granted.
68. Should the LME at any time suspect that the information provided in an Exemption Application is false or misleading, the LME may refuse an Exemption Application, withdraw or amend the conditions of an Exemption or the level of an Exemption Ceiling without prejudice to taking any further action under its Rules.
69. Applicants must provide supporting evidence to help the LME assess the application. Supporting evidence may include trade data, position data, financial statements, annual reports, internal policies and other pertinent information.
70. The information and evidence as required by the Exemption Application and this policy is not exhaustive and the LME, at its discretion, may seek further information, clarification or evidence to support its analysis of the Exemption Application.
71. Applicants should anticipate an iterative process as the LME assesses the information provided. Applications must be made in good time ahead of the intended effective date of the Exemption in order to allow for the LME to assess the Exemption Application.
72. A suitable person of appropriate seniority (such as but not limited to Head of Compliance) shall attest to the accuracy and completeness of the information provided in the Exemption Application form. The Exemption Application shall not be considered complete without a satisfactory attestation.
73. Information provided in the Exemption Application and associated to further information requests concerning Exemption Applications shall be treated by the LME as Confidential Information.
74. The LME shall assess Exemption Applications and promptly communicate its decision to the applicant.

Available Exemptions

75. Firms may apply for the following Exemptions for their eligible positions (i.e. a position which meets the criteria to obtain an Exemption, noting that the LME retains full discretion as to whether it will grant the Exemption):
 - (a) **“Hedging Exemption”** – a non-financial entity which holds eligible positions in one or more Critical Contracts and Related Contracts for the purposes of reducing risks directly related to its commercial activity;
 - (b) **“Pass-Through Hedging Exemption”** – a financial entity which holds eligible positions in one or more Critical Contracts and Related Contracts for the purposes of enabling a non-financial entity



to benefit from the Hedging Exemption or to offset an OTC position held with a non-financial entity which is conducting hedging activity; or

- (c) **“Liquidity Provider Exemption”** – a financial entity or a non-financial entity which holds eligible positions in one or more Critical Contracts and Related Contracts and those positions are objectively measurable as resulting from a transaction consistent with obligations to provide liquidity via an LME-approved liquidity provider scheme.

Hedging Exemption

76. On the basis of the information provided in the Exemption Application and during the Exemption Application process, the LME must be satisfied that the position held by the non-financial entity:
- (a) is objectively measurable as reducing risks directly relating to their commercial activity; and
 - (b) either:
 - i. reduces the risks arising from the potential change in the value of assets, services, inputs, products, commodities or liabilities that the non-financial entity or its group does (or reasonably anticipates that it will) own, produce, manufacture, process, provide, purchase, merchandise, lease, sell or incur in the normal course of its business; or
 - ii. qualifies as a hedging contract pursuant to UK-adopted IFRS as defined in the FCA rules; and
 - (c) is capable of being unwound in an orderly way.
77. Exemption Applications concerning Hedging Exemptions shall include at least the following information, at the time of the Exemption Application and in relation to the following 12 months from the date of submission:
- (a) an explanation as to how the applicant is a non-financial entity as defined under the FCA rules;
 - (b) a description of how the position complies with the requirements of paragraph 76;
 - (c) a description of the nature and value of the non-financial entity’s commercial activities in the metal underlying the Contract for which an exemption is sought;
 - (d) a description of the nature and value of the non-financial entity’s activities in the trading of and positions held in the relevant Contract as well as in over-the-counter contracts;
 - (e) a description of the nature and size of the exposures and risks in the metal which the non-financial entity has or expects to have as a result of its commercial activities and which are or would be mitigated by the use of Contracts and over-the-counter contracts; and
 - (f) an explanation of how the non-financial entity’s use of Contracts and over-the-counter contracts directly reduces its exposure and risks in its commercial activities.
78. The non-financial entity shall:
- (a) provide internal policies describing:
 - i. the types of Contract and over-the-counter contracts included in the portfolios used to reduce risks directly relating to commercial activity and their eligibility criteria;
 - ii. the link between the portfolio and the risks that the portfolio is mitigating; and
 - iii. the measures adopted to ensure that the positions concerning those contracts in (i) serve no other purpose than covering risks directly related to the commercial activities of the non-financial entity, and that any position serving a different purpose can be clearly identified; and
 - (b) provide a sufficiently disaggregated view of the portfolios in terms of distinguishing between Contracts and over-the-counter contracts, underlying metal, time horizon and other relevant factors.



79. A condition of a Hedging Exemption is that the Exemption Holder shall notify the LME:
- (a) promptly if there is a significant change relevant to the nature or value of the non-financial entity's commercial activities or its trading activities in Contracts and over-the-counter contracts, and the change is relevant to the information required in the Exemption Application;
 - (b) promptly of a breach of any condition relating to an Exemption; and
 - (c) in any event, on an annual basis, of its intention to rely on the Exemption or otherwise, and supplying any changes to the information previously submitted in accordance with the Exemption Application so the LME can re-assess whether to grant the Exemption (i.e. the Exemption automatically expires unless it successfully reapplies).

Pass-Through Hedging Exemption

80. On the basis of the information provided in the Exemption Application and during the Exemption Application process, the LME must be satisfied that:
- (a) the financial entity enters into a Contract for the purposes of enabling a non-financial firm to benefit from the Hedging Exemption; and/or
 - (b) the financial entity enters into a Contract for the purpose of off-setting the risk arising from an over-the-counter contract with a non-financial entity facilitating hedging activity.
81. Where the paragraph 80(b) above is applicable, the financial entity must obtain and provide to the LME with the Exemption Application written representation from the non-financial entity that the position entered into facilitates hedging activity. For this purpose, the LME shall accept a standardised agreement as provided by the International Swaps and Derivatives Association (ISDA), in Schedule 2. To be clear, the LME will accept other types of written confirmation.
82. The LME shall not accept Exemption Applications concerning Pass-Through Hedging Exemptions conducted on behalf of anonymised entities.
83. Exemption Applications concerning Pass-Through Hedging Exemptions shall include at least the following information, at the time of the application and where possible in relation to the following 12 months from the date of submission:
- (a) an explanation as to how the applicant is a financial entity as defined under the FCA rules;
 - (b) a description of how the position complies with the requirements of paragraph 80;
 - (c) a description of the financial entity's risk-mitigation services in the metal underlying the Contract for which an Exemption is applied; and
 - (d) a description of the financial entity's trading activity and positions for which an Exemption is applied, in Contracts and over-the-counter contracts that relate to providing risk mitigation services.
84. Where a financial entity is unable to accurately anticipate the information concerning the following 12 months, the LME requires that the financial entity make best efforts to provide information with respect to forward looking activity on the basis of the previous 12 months. In that event, the financial entity must make clear within their application where it has relied on such information.
85. For the avoidance of doubt a Pass-Through Hedging Exemption may not be applied for inventory monetisation or for the purposes of financing arrangements.
86. A condition of a Pass-Through Hedging Exemption is that the Exemption Holder shall notify the LME:



- (a) promptly if there is a significant change to relevant to the information set out in the Exemption Application; and
- (b) on an annual basis of its intention to rely on the Exemption or otherwise, and supplying any changes to the information previously submitted, including information relating to the period for the next 12 months.

Liquidity Provider Exemption

87. On the basis of the information provided in the Exemption Application and during the Exemption Application process, the LME must be satisfied that:
- (a) A specific application has been received by the entity for these purposes;
 - (b) The obligations to provide liquidity are clearly defined and relate to observable metrics of market quality, including depth and tightness of the spread;
 - (c) The position arises from discharge of the entity's obligation as a liquidity provider; and
 - (d) The Exemption is temporary in duration and the entity reduces its position as soon as reasonably practicable prior to the expiry of the Contract.
88. Exemption Applications concerning Liquidity Provider Exemptions must include at least the following information, at the time of the application:
- (a) the details of the incentive programme relevant to the application;
 - (b) a description of how the position complies with the requirements of paragraph 87;
 - (c) a description of the liquidity the applicant provides in respect of the Contract for which an Exemption is being requested; and
 - (d) an acknowledgement that the Exemption is temporary in duration and confirmation that the position will be reduced as soon as reasonably practicable and prior to the expiry of the Contract.
89. Liquidity Provider Exemptions will expire automatically in the event the incentive programme is terminated or the Exemption Holder ceases to participate in the incentive programme.
90. The LME considers that its active incentive programmes are volume-based and therefore would not be eligible for the Liquidity Provider Exemption as market participant activity in the incentive programmes are not measured in relation to observable metrics of market quality including depth and tightness of spread.
91. While this is a current assessment of the incentive programmes which are active at the LME, the LME may at its discretion and subject to regulatory non-objection, change this approach in the future should the requirements of the incentive programmes change or new incentive programmes be introduced.
92. Notwithstanding the above, the LME shall review Exemption Applications concerning the Liquidity Provider Exemption on a case-by-case basis.

Questions

93. Members, Persons Subject to the Rules or Clients with queries regarding this policy should contact Market Surveillance at market.surveillance@lme.com.



Amendment and Change History

Version	Author	Revisions
February 2026	Market Surveillance	Consultation relating to PS25/1
April 2026	Market Surveillance	Decision Notice relating to PS25/1

Schedule 1

Regulatory Position Limits

Critical/Related Contract	Spot Month Contracts Regulatory Position Limits (Lots)	Other Months' Contracts Regulatory Position Limits (Lots)
LME Aluminium (AH)	30,000	45,000
LME Copper (CA)	18,000	25,000
LME Nickel (NI)	11,000	14,000
LME Lead (PB)	7,000	8,000
LME Tin (SN)	1,000	1,100
LME Zinc (ZS)	10,000	13,000



Schedule 2

ISDA

“Party [B] represents that, unless it has otherwise notified Party [A] in writing prior to executing a Transaction, each Transaction it enters into under this Agreement facilitates Hedging Activity”

“Hedging Activity” means any transaction entered into, or position held, or any other activity by Party [B], that:

- (1) is objectively measurable as reducing risks directly relating to its commercial activity; or*
- (2) qualifies as a hedging contract pursuant to UK-adopted IFRS (or equivalent accounting standards). [(See note below)]*

For these purposes, a transaction, position or other activity is “objectively measurable as reducing risks” when it reduces the risks arising from the potential change in the value of assets, services, inputs, products, commodities or liabilities that the non-financial entity or its group owns, produces, manufactures, processes, provides, purchases, merchandises, leases, sells, or incurs or reasonably anticipates owning, producing, manufacturing, processing, providing, purchasing, merchandising, leasing, selling or incurring in the normal course of its business.

Note: MAR 10.2.7R specifically allows the trading venue to determine that a transaction is within the Hedging Exemption when either it is objectively measurable as reducing risks or it qualifies as a hedging contract under UK-adopted IFRS.