

To: All members and other interested parties

Ref: 25/149

Classification: Consultation Trading

Date: 15 August 2025

Subject: **DECISION NOTICE ON ENHANCING LIQUIDITY**

Summary

1. Following the Consultation on Enhancing Liquidity – LME Notice 25/083 dated 30 April 2025 (the **Consultation**), the London Metal Exchange (the **LME**) has decided to implement, with some modifications, all of the proposals set in the Consultation. This Notice amends the Rules and Regulations of the LME (the **Rules**) and introduces:
 - a Minimum Volume Threshold in the inter-office market (the **MVT Rule**);
 - a prohibition on Pre-Trade Communications in LME Select; and
 - a “**Crossing Rule**” in relation to trades below the Minimum Volume Thresholds (the **Decision Notice**).

Defined terms

2. Terms not otherwise defined in the Decision Notice shall have the meaning ascribed to them either in the current version of the LME Rulebook or in the amended version of the Rulebook set out in Annex 2 of this Notice.

Documents attached to the Decision Notice

- Annex 1: LME Liquid Instruments and Minimum Volume Thresholds (final)
- Annex 2: Redline of amendments to the LME Rulebook (final)
- Annex 3: Blocks Guidance (near final - subject to further changes before entry into force of the MVT Rule)
- Annex 4: Crossing Guidance (near final - subject to further changes before the entry into force of the Crossing Rule)



Timeline of entry into force of the new Rules and Guidance

3. The new and amended Rules will not come into force at the date of publication of this Decision Notice. Below we set out an indicative timeline for the entry into force of the new Rules and Guidance:

Measure	Entry into force (indicative)
Introduction of a prohibition on Pre-Trade Communications on LME Select	20 February 2026
Introduction of a “Crossing Rule” on LME Select and Crossing Guidance	20 February 2026
Introduction of Minimum Volume Thresholds for trading in the inter-office market and Blocks Guidance	30 March 2026

4. This timeline can be revised. Final dates of entry into force will be announced in one or more separate Notices.

Background and market engagement

5. In September 2024, the LME issued a White Paper on Enhancing Liquidity (the **White Paper**) outlining a package of measures designed to modernise the LME’s market structure, boost transparency and price competition, while protecting the unique features of its market that serve the physical metal communities. After having engaged widely with its Members and wider stakeholders, the LME published on 30 April 2025 a Consultation on the introduction of (i) a MVT Rule in the inter-office market, (ii) the prohibition of Pre-Trade Communications in LME Select and (iii) a Crossing Rule to enhance liquidity, transparency and price competition in LME Select.
6. The Consultation period closed on 13 June 2025 with 28 formal responses received. This Decision Notice analyses the core themes of those responses and provides the LME’s feedback and proposed next steps.
7. The LME will continue engaging with Members and market participants to support the implementation of the measures outlined in this Decision Notice.
8. The LME has taken the feedback into careful consideration, and this Decision Notice explores that feedback in detail. This Decision Notice provides a summary of the representations from Members and market participants, rather than a verbatim report of all feedback received on each topic. This is both to protect the anonymity of all those who responded, and to make this document more digestible to interested stakeholders.
9. The structure of the Decision Notice mirrors that of the Consultation, whereby for each of the questions listed in the Consultation, we will summarise the responses received, set out our views and provide the outcome.



Executive Summary

10. As expected, the LME received a range of responses to the Consultation, with some responses supportive of the proposals and others challenging the proposals. Broadly, there was general consensus supporting the introduction of a prohibition on Pre-Trade Communications in LME Select. The concerns mostly related to the MVT and Crossing Rules, in particular the costs, the complexity and the timeline relating to the implementation of these Rules. In general, however, none of the responses raised substantive new issues which had not been considered by the LME prior to the publication of the Consultation.
11. In relation to the MVT Rule, concerns were raised about the impact the new Rule would have on Members' and market participants' business models, their ability to give risk prices to Clients, the lack of liquidity on LME Select for certain Contracts in scope of the MVT Rule and the risks of fragmentation of liquidity across monthly contracts. Respondents were also concerned that most physical clients who tend to trade small volumes would be negatively impacted by the new Rules.
12. In relation to the Crossing Rule, the majority of respondents were concerned that Direct Electronic Access (**DEA**) Clients could engage in Pre-Trade Communications when doing a cross. Others were concerned about maintaining the anonymity of trading on LME Select if two Members were permitted to separately enter their side of the crossing order.
13. We have carefully considered all of the feedback received during the Consultation. As a result, we are making a number of clarificatory amendments to our Rules as compared to the drafts referenced in the Consultation document:
 - The exception contained in Regulation 2.5A.3(a) will apply to both an Equivalent Trade on LME Select in the exact instruments or an Equivalent Trade on LME Select in a combination of instruments and a definition of "Equivalent Trade" is introduced in the Glossary to that effect. Under the new definition an Equivalent Trade executed in LME Select may have a different price to the Agreed Trade in the inter-office market which may include commissions, charges or fees. We have further clarified how the Crossing Rule exception works in Regulation 2.5A.3(b) as well as simplified the drafting to make clear that Members who have used either one of the exceptions in Regulation 2.5A.3 may subsequently aggregate their Agreed Trades and execute them in the inter-office market in compliance with Regulation 3.12. Finally, to execute an Agreed Trade in an LME Liquid Instrument below the Threshold in the inter-office market using either exception in Regulation 2.5A.3, we make clear that a Member must first obtain the consent of its Client;
 - Regulation 2.2A. is clarified to prohibit all Pre-Trade Communications on LME Select save (i) for lawful and legitimate business communications between a Member and a Client in relation to an order and (ii) where a Member makes use of the Crossing Rule; and
 - Regulation 2.4A. is amended to clarify that only Members can make use of the Crossing Rule. Moreover, there will be no exception to the anonymity of trading on LME Select, including where a Member crosses in LME Select.
14. The Blocks and Crossing Guidance are revised accordingly.
15. Overall, we are of the view that the measures presented in the Consultation and in the Update on Enhancing Liquidity published on 30 April 2025 (the **Update**) as amended in this Decision Notice align to their key objectives, namely to (1) increase price competition (2) enhance transparency (3) continue to support the physical market and (4) ensure fairness.
16. We are therefore progressing all the Rules presented in the Consultation with the amendments presented in this Decision Notice.



A. Introduction of Minimum Volume Thresholds for trading in the inter-office market

I. Feedback received and LME's response

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.

17. A number of respondents to Question 1 supported the introduction of the MVT and Crossing Rules and noted that the proposals in the Consultation were in line with industry standards. They viewed both Rules as a positive step towards modernising the LME market. A number of respondents confirmed that the new Rules would achieve the key objectives noting that they would increase liquidity on LME Select and encourage fairness and transparency for the benefit of the market as a whole.
18. Respondents noted that (i) the MVT Rule enabled small trades to be exposed to central price discovery / increased screen trading and this would reduce information asymmetry thereby increasing liquidity by encouraging more informed trading decisions, (ii) the MVT Rule and Thresholds made sense (given that they would not apply to daily Prompts, Cash outright trades or spread trades from Cash) and (iii) the LME's measures were in line with the Oliver Wyman Report¹ in that they standardized the LME's markets without significant loss of functionalities for Members and market participants.
19. One respondent noted that the LME should go further and not limit Block Rules to futures and should consider extending these Rules to Options to encourage trading of Options on the electronic order book. The LME considers that the current proposals in the Consultation are in line with the direction of travel set out in the Update.
20. Question 1 was also the question which received the most challenge from respondents. Below we have grouped and summarised these challenges by themes, although in practice there was a high degree of overlap between them.

Concerns around the complexity of the MVT and Crossing Rules, lack of clarity of the Consultation either in terms of timeline of implementation, or details

21. A few respondents noted that the MVT and Crossing Rules and the related exception to the Prohibition on Pre-Trade Communications in LME Select, were too complex from an operational point of view (notably the concern was that the proposed Rules would reduce the user's ease of using the Exchange, for instance in terms of complexity of trade types and entry, or how Clients hedge) and from a monitoring/compliance perspective, creating additional risks for some Members. Two respondents noted that the Consultation/guidance were not clear as to how the new Rules would apply in practice (e.g. how to create a compliant audit trail).
22. Linked to the concern around complexity, a few respondents expressed concerns around the implementation timeline of the package of Rules and whether Members and market participants would have enough time to be operationally ready for when the Rules went live. One respondent noted that the LME should publish a full technical specification document that detailed all technical and systems changes associated with the MVT and the Crossing Rules.
23. Two respondents stated that the Consultation lacked sufficient detail and clarity on the practical implementation of the proposed Rules and should be subject to further consultation.

LME response

24. As noted in the White Paper and the Consultation, whilst we recognise that the implementation of the MVT Rule and the associated measures will require Members and their Clients to adapt their systems

¹ Available at: <https://www.lme.com/en/trading/initiatives/nickel-market-independent-review>



and operations and familiarise themselves with our new Rules and associated guidance, we note that block rules already apply in every major commodity exchange in the world.

25. We created a number of exceptions and exemptions to the MVT Rule which admittedly leads to a certain level of operational complexity and in relation to which we have sought to provide as much detail and clarity as possible in the Consultation. We introduced these exceptions and exemptions as a result of carefully listening and responding to market feedback around the need to allow bookings which are not subject to the MVT Rule.
26. Moreover, in designing the MVT Rule, in response to feedback and to support the physical market, we decided not to apply the new MVT Rule to daily Prompts, spreads where one or more leg is a daily Prompt, Cash outright trades or spread trades from Cash to other Prompt Dates. This has been acknowledged by a number of respondents in their responses to the Consultation.
27. We recognise, however, that the implementation of the MVT Rule will be novel for some of our Members and ISVs. In light of the feedback we will continue to engage with Members and participants on the implementation of the MVT and Crossing Rules.
28. In response to this feedback the LME is proposing a simplified operational implementation: we are removing the requirement to book the exemptions with separate trade categories. This will simplify the practical implementation of the MVT Rule and should help minimise the impact of the introduction of the new Rule on Members' and ISVs' systems as no new trade categories will be required. The LME will enhance its auditing approach in terms of frequency and breadth to ensure compliance.
29. In addition, our indicative timeline for implementation takes into account the overall reduction in complexity of the new Rules. At a later stage, the LME intends to consult on the LME's expectations on Member monitoring and enforcement process in relation to the MVT Rule and the Crossing Rule. More information will be provided in due course.

Concerns around the costs of implementing the MVT and Crossing Rules, disruption of Members' and market participants' business models

30. A few respondents were concerned that the MVT Rule will create significant technological, operational and compliance costs for Members to implement in their systems, processes and procedures and will increase the cost of servicing Clients. A number of respondents argued that the MVT Rule would change their business models, notably in terms of their ability to continue to service Clients with a risk price. Two respondents noted that Clients would pressure Members to reduce their fees and/or negatively impact their business models. One respondent claimed that Members were only able to provide better prices to Clients bilaterally if they could continue to internalise the flow and not expose their risk price to the central electronic book.

LME response

31. We acknowledge that for some of our Members and market participants the MVT Rule (and Crossing Rule) may change their business models and that they will have to adapt their trading practices. However, these changes are taking place in the broader context of LME's proposals and the engagement to date:
 - We are delivering technological solutions like the automated crossing order type to support Members. This new order type will automatically allow a Member to let the market know a cross is going to take place, then expose the Client side to LME Select and either (a) receive an improvement for the Client if better prices come into LME Select or (b) complete the cross at the previously indicated price level (clean price – ex commission);
 - In other areas we originally proposed a range of measures in the White Paper, such as for instance “enhancing practical market data transparency in the inter-office market”. We have considered the extensive feedback received throughout the process, we have acted proportionally throughout and we have chosen not to immediately progress some of the proposals in the White Paper;
 - In response to feedback received during bilateral engagement, the LME has further simplified the LMEsmart implementation of blocks to support Members by specifically removing the requirement



for new trade categories to support the entry of sub-MVT trades that are exempt (see the Block Guidance attached);

- The LME's introduction of an MVT Rule in the inter-office market is in line with industry standards; and
- Our view remains that a market structure that avoids fragmented pools of liquidity and centralises flow into the central electronic venue will ultimately benefit the market as a whole and aligns with our core regulatory obligations.

Concerns that the MVT Crossing Rules will entail significant costs for end-clients

32. A number of respondents suggested that the introduction of the MVT Rule will result in higher fees for end-clients as Members will pass on the costs of implementing the Rule on them. Two respondents noted that clients would put pressure on Members to reduce their fees and/or impact their business models. One respondent noted that the MVT Rule will negatively impact Clients who currently trade electronically and adjust their trade on the inter-office market as adjustments on LME Select are more costly for Clients than adjustments on the inter-office market. One respondent noted that adjustments should not be subject to additional fees. Another respondent said that the Rules would increase the costs for Members who will, as a result, not service Clients who want to trade below the Minimum Volume Thresholds. One respondent stated that the LME should reduce its fees for trading on LME Select. Another respondent stated that adjustments on LME Select should not be subject to additional fees.

LME response

33. Overall, the package of measures proposed is designed to meet the objectives of increasing liquidity and transparency on LME Select in order to reduce execution costs for end-clients. Where a Client is trading DEA and executing a monthly contract direct on LME Select today, there would be no change to their Exchange fees. Similarly, once the MVT and Crossing Rules are in force, where a Member quotes a monthly contract to a Client and crosses it through LME Select, there may be no change to the amount of Exchange fees paid (noting that this will ultimately depend on Members' hedging choices and charging practices). The LME acknowledges that, in some scenarios, a Client may deem liquidity to be sufficiently superior in component instruments to warrant them executing the individual components separately as a result of which they would pay additional Exchange fees.
34. In terms of reducing Exchange fees, as noted in the Update, we are expanding the short-dated Carry definition to reduce the fees for certain daily spread trades regardless of whether they are executed on LME Select or on the inter-office market.

Concerns that the MVT Rule will negatively impact physical clients

35. Some respondents were concerned that physical clients would likely be more impacted by the MVT Rule given that they tend to trade small volumes. Their view was that these clients were generally less sophisticated and require more assistance from Members. By requiring them to execute on LME Select, the new Rules would make it more difficult for Members to hedge physical clients' risks quickly and with certainty. Physical clients tend not to trade DEA on LME Select, even though they already have the option to trade that way, notably because they request bespoke account terms and bespoke structures that cannot be replicated via DEA. Another concern expressed was that the MVT Rule would likely benefit larger financial players and favour algorithmic trading participants.

LME response

36. In the Update, we noted the steps we took to protect the physical community. We are excluding from the scope of the MVT Rule Cash outright trades along with any spread trade where Cash is one leg. We are also changing the definition of the short-dated Carry discounts to support liquidity in the daily date.
37. We are also delivering an automated cross order type to support Members in continuing to be able to offer guaranteed risk prices (with potential for improvement) to Clients trading below the Thresholds should they so wish and giving them the opportunity to get better pricing from LME Select.



38. We acknowledge that, for some end-clients, the introduction of the MVT Rule will represent a change to the way in which they currently execute trades on the LME. However, as noted above, the measures will only apply to a limited number of liquid instruments at the front of the curve and if a Client is a position holder in these instruments they will ultimately benefit from the increased on-screen liquidity.
39. The inter-office market remains an integral part of the LME eco-system and supports liquidity provision and market-making in large trades, complex orders, and orders in less liquid parts of the curve including daily dates. The short-dated Carry discount will apply to the inter-office market demonstrating the LME's continuing support for this Execution Venue.

Concerns that the MVT Rule will increase DEA trading on LME Select resulting in certain end-clients being worse off

40. Some respondents argued that the MVT Rule will have the effect of increasing DEA trading on LME Select resulting in certain end-clients being worse-off as they do not have the level of sophistication to trade DEA and/or will need to obtain third-party software or be provided access to LME Select via their broker Members.

LME response

41. LME acknowledges that it is likely that some Clients will benefit operationally from trading directly on LME Select (whether that is via a front-end GUI or API or otherwise). Other Clients will likely not trade DEA whether before or after the introduction of the MVT Rule. However, the LME has carefully designed the proposals such that Members can continue to service Clients for orders below the MVT either by simply executing on their behalf on LME Select or giving them a guaranteed risk-price by utilising the crossing functionality should they so wish.

Liquidity and volumes concerns

42. The feedback acknowledged there was enough liquidity on 3-Month (**3M**) contracts. However, a few respondents challenged the imposition of the MVT Rule on certain less liquid contracts (monthly outright contracts as well as spreads between 3M and certain monthly contracts). In particular, one of the respondents stated that liquidity would not have developed in monthly contracts by the time the LME introduced the MVT Rule. The same respondent suggested that the LME imposes different levels of Minimum Volume Thresholds depending on the type of Contract, for instance imposing a Threshold on certain monthly contracts different from the Threshold imposed on 3M contracts. Another respondent was concerned that the MVT Rule would reduce the volume and liquidity of the Cash Contract and the Cash price as a result of a potential large reduction in 3M trading which in part drives the Cash price. The same respondent was also concerned that tom-next and short dated Carries would be negatively impacted by the MVT Rule.

LME response

43. We note that if the LME had imposed separate Minimum Volume Thresholds depending on the Prompt Date of the Contract, the Threshold levels on 3M contracts would likely have been higher than the Threshold levels that were provided in the Consultation. Our view is that the levels represent the liquidity profile of all instruments (3M, monthlies to M6 and all spreads in between) as well as our own expert judgment and liquidity analysis, balancing the competing views 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 hand.
44. We also strongly believe that there is a balance between simplicity and granularity. This was discussed during the LME's bilateral engagement with Members and market participants. The Thresholds put forward during the Consultation reflect the outcome of those conversations. Moreover, we note that creating multiple Thresholds depending on the Prompt Dates would not have been beneficial to the market as it would create unnecessary complexity for trading on LME's markets - complexity being a specific concern that has been raised by respondents which we have worked to address.



45. As regards the comments that there is not enough liquidity in relation to monthly outright contracts, we note that significant volumes are traded in the inter-office market and the objective of the MVT Rule is to encourage trading on the transparent venue in line with standard market structure across peers.
46. The LME is aware of the argument that, in its efforts to enhance liquidity on LME Select in particular in relation to monthlies, this could negatively impact the liquidity of the Cash Contract due to the reduction of residual daily OI. As explained in the Update, the LME remains 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.
47. We acknowledge that if liquidity and execution move away from trading 3M and adjusting, this may have a negative impact on the LME's revenues. However as stated in the White Paper, the objective of this package of measures is to make the market more efficient and fair in order to ultimately increase liquidity for other users on LME Select.

Fragmentation of liquidity across monthly contracts

48. A number of respondents were concerned that the MVT Rule would have the effect of fragmenting liquidity in relation to monthly contracts as the Rule would have the effect of splitting the 3M liquidity across the curve resulting in insufficient market depth at each point of the curve and in turn the 3M-calendar spreads that make them up. One respondent suggested that the MVT Rule may impact liquidity in tom-next.

LME response

49. We have implied pricing enabled on LME Select which links liquidity in outrights through to other outrights via the relevant spread.
50. As outlined in the White Paper and in the Update, the LME will launch a liquidity provider programme (**LP Programme**) which will initially focus on the spreads from 3M 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.
51. It is the LME's intention for the LP Programme to apply to Aluminium, Copper, Zinc, Nickel and Lead with consideration for some incentivisation during Asian hours trading. The LP Programme will focus on liquidity in month 3 and month 4 and the spreads in between as a result of which Members and market participants who want to continue to execute 3M and adjust will be able to do so. Their liquidity will be able to interact with those who prefer to trade the monthly direct without splitting liquidity.
52. The LME is confident in the continued demand to trade and hold positions in daily dates including tom-next and the front of the curve, bolstered by Cash trading, and that this will remain unaffected by the new MVT Rule.

The LME should measure the impact of the MVT Rule on liquidity on Select post- implementation

53. Three respondents asked whether the LME will review the success of its block measures post-implementation and whether the LME will ensure that the introduction of the MVT Rule will not increase price volatility in certain Contracts. One respondent raised concerns on the ability of the LME to perform effective surveillance on trading activity compliant with the MVT Rule against impermissible activity in breach of market abuse.

LME response

54. The objective of the overall package is to enhance liquidity and increase transparency. Once the MVT Rule is live, the LME will be closely tracking a number of metrics relating to liquidity including volume, relative venue share, the size and depth in the book (in the relevant instruments), as well as broader measures including overall Open Interest (**OI**) and participation in specific instruments and venues.
55. To ensure that the MVT Rule is effectively implemented by Members, we remind Members that our powers to request information in Regulation 12.2 Part 2 of the Rulebook extend to ensuring that



Members comply with the MVT and Crossing Rules and align their market behaviour with our expected behaviour in our guidance.

Concerns that the MVT Rule is not a regulatory requirement placed on the LME and there is no evidence that the instruments in scope of the MVT Rule are illiquid

56. One respondent noted that there was no regulatory requirement on the LME to set a Minimum Volume Threshold in the inter-office market. One respondent argued that there was no evidence of a lack of liquidity in the instruments in the proposed scope of the MVT Rule.

LME response

57. It is correct that the LME is not expressly required by regulation to set a MVT Rule on its inter-office market. However, the LME has a duty to ensure that the financial instruments admitted to trading on its venues are capable of being traded in a fair, orderly and efficient manner. Based on our market expertise, we have concluded that the imposition of an MVT Rule in the inter-office market positively supports our core regulatory requirements around market integrity and price formation.
58. In relation to the liquidity point, as explained in the Update, the MVT Rule applies to a certain set of instruments which will initially consist of monthly outright (or 3M) contracts out to month 6, and any spreads where both legs involve a monthly contract out to month 6 or the 3M contract for Aluminium, Copper, Zinc, Nickel and Lead futures only (excluding LME Options TAPOs, MAFs etc). The Rule will only apply to trades executed in USD. Instruments in the proposed scope of the MVT Rule and which will have to be traded in LME Select if their volume is below the Threshold (and if no exception or exemption apply) are therefore either sufficiently liquid or have the potential to be liquid. The LME believes that introducing the MVT Rule will support liquidity and protect market integrity and price formation in these instruments.
59. Finally, the LME will allow a number of scenarios where trades in LME Liquid Instruments will be permitted in the inter-office market even where such trades are below the Minimum Volume Threshold, including:
- where exceptions apply, that is (a) Client trades where a Member has first executed an Equivalent Trade on LME Select in the exact instrument(s) or in a combination of instruments (on the latter point - see below) or (b) where a trade has been crossed on LME Select in compliance with the Crossing Rule (Regulation 2.5A.(3)); or
 - where technical exemptions apply such as options delta hedges, strips and allocations as detailed in the Blocks Guidance (Regulation 2.5A.4).

Other - Support for the introduction of TAS

60. We note that a number of respondents voiced support for the introduction of a Trade At Settlement (TAS) Contract type. We will consider this at a later date noting that we already have the powers in the LME Rulebook to introduce such Contracts (Regulation 2.1.4 of Part 3) and that any new TAS Contract will be announced by Notice.

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

61. We are pleased by the broad support our proposed exceptions and exemptions to the MVT Rule have received.
62. We note that two respondents objected to the introduction of exemptions and exclusions to the MVT Rule because they objected to the introduction of the Rule as a matter of principle. One respondent challenged the LME to review the exceptions and exemptions to ensure that they are consistent with the overall objectives of the MVT Rule.



63. Our responses to more specific feedback on Question 2 are set out below.

Regulation 2.5A.3 (a): defining what is an “equivalent trade” and clarifying the drafting of the Rule

64. One respondent suggested that the undefined concept of ‘equivalent trade’ used in the exception in Regulation 2.5A.3 (a) should be defined.
65. Another respondent asked whether the exception in Regulation 2.5A.3(a) was meant to apply only to an equivalent trade to the Agreed Trade in the exact same instrument(s) (e.g. a firm which trades a June in LME Select can only trade a June in the inter-office market) or whether we would allow the exception in Regulation 2.5A.3(a) to apply to an equivalent trade to the Agreed Trade in a combination of instruments. It was also questioned whether the price of an equivalent trade needed to be identical to the Agreed Trade in the inter-office market or whether a Member could apply a fair mark-up.

LME response

66. We have considered whether the term “equivalent trade” used in the exception set out in the draft of Regulation 2.5A.3(a) should be defined. We agree that it should in order to support Members understanding and complying with the MVT Rule.
67. The exception in Regulation 2.5A.3(a) will apply to both an “Equivalent Trade” on LME Select in the exact same instruments and an “Equivalent Trade” on LME Select in a combination of instruments – to do so we have introduced the concept of “Equivalent Trade” in the Glossary to that effect and we have simplified the legal drafting of the exception for further clarity.
68. We are also clarifying how the Crossing Rule exception works. The exception will only apply where the Member has first crossed an Equivalent Trade in Select for each corresponding Agreed Trade in an LME Liquid Instrument below the MVT that may be executed in the inter-office market thereafter.
69. Further, Members who have used either one of the exceptions in Regulation 2.5A.3 may subsequently aggregate their Agreed Trades and execute them in the inter-office market in compliance with Regulation 3.12 Part 3 of the Rules.
70. Regulation 2.5A.3 will require that in all cases, a Member first obtains the consent of the Client to execute on the basis of either exception.
71. We are therefore making the following changes to Regulations 2.5A.2 and 2.5A.3 (redline showing the changes compared to the text that was originally consulted on):

2.5A.2 Members and Registered Intermediating Brokers cannot aggregate ~~or disaggregate~~ Agreed Trades to circumvent the prohibition in Regulation 2.5A.1, including without limitation:

- (a) individual Agreed Trades from the same Client which have been aggregated where any such trade is below the Minimum Volume Threshold; or
- (b) individual Agreed Trades from separate Clients which have been aggregated where any such trade is below the Minimum Volume Threshold; or
- (c) an order from the same Client at or above the Minimum Volume Threshold which has been split into several orders where any of the resulting Agreed Trades are individually below the Minimum Volume Threshold;

For the avoidance of doubt, individual Agreed Trades may be aggregated pursuant to one of the exceptions set out in Regulation 3.12 ~~(a) and (b)~~ and executed in the inter-office market only where each component order of the Agreed Trade (including any adjustment of the Prompt Date under Regulation 3.12(b)) ~~either (i) is equal to or above the Minimum Volume Threshold or (ii) has been executed in compliance with Regulation 2.5A.3.~~



2.5A.3 By way of exception, Regulation 2.5A.1 shall not apply to an Agreed Trade in an LME Liquid Instrument where that Agreed Trade is below the Threshold and:

(a) where a Member wishes to trade with a Client, before submitting the Agreed Trade in the inter-office market ~~in compliance with Regulation 3.12(b)~~, the Member shall have first executed an ~~Equivalent Trade to the Agreed Trade~~ in LME Select;

or

(b) where, ~~before submitting for each the~~ Agreed Trade ~~submitted~~ for Execution in the inter-office market, the Member shall have first executed an ~~Agreed Equivalent~~ Trade in LME Select in compliance with a method of crossing specified by the Exchange in Regulation 2.4A;

provided that the Member has first obtained the consent of the Client to execute in either of the above ways.

72. As noted above, we are introducing the concept of “Equivalent Trade” in the Glossary. An Equivalent Trade executed in LME Select may have a different price to the Agreed Trade in the inter-office market - the latter price may include commissions, charges or fees provided that these have been previously agreed with the Client.

“Equivalent Trade”

for the purpose of Regulation 2.5A.3 only, a single trade in the exact same instrument(s) or multiple trades in a combination of instruments with the same risk profile as the corresponding Agreed Trade to be executed in the inter-office market between a Member and a Client. An Equivalent Trade may have a different price to the Agreed Trade in the inter-office market which may include any commissions, charges or fees provided that these have been previously agreed with the Client.

73. The Block Guidance is amended to further provide guidance as to how the exceptions are meant to apply.

74. As explained in the Consultation, the Block Guidance, which may be revised, will provide the technical exemptions to the prohibition to trade LME Liquid Instruments below the MVT in the inter-office market.

Blocks Guidance: partial fills and algo-trading

75. Two respondents requested a clarification of the Block Guidance on partial fills.

76. One respondent noted that the LME should introduce new exemptions in the Blocks Guidance specific to algorithmic trading.

LME response

77. We will amend the Block Guidance to reflect the clarification on partial fills. We are clarifying that any partial fill must itself adhere to the MVT Rule.

78. We disagree with creating specific exemptions for algo-traders because we have not seen good evidence that treating algo-traders differently from other traders would be justified in view of the objectives of the MVT Rule. More generally, we do not believe that offering an exemption for a small



trade linked to a larger order adds to the effectiveness of the MVT Rule and/or promotes liquidity on LME Select. As confirmed above, all partial fills and executions should adhere to the MVT Rule.

79. Finally, we will remain open to constructive suggestions by Members and market participants on our Blocks Guidance, however, as set out in the Consultation, there should be no assumption that there will be future public consultations on any revision to the Blocks Guidance.

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

Concerns on the calibration of the Thresholds

80. Two respondents objected as a matter of principle to the implementation of a Threshold for trading on the inter-office market. One respondent noted that the LME should have had a more granular approach to the calibration of the Thresholds and should have introduced multiple Threshold levels depending on the Prompt Dates.

LME response

81. We have already addressed this feedback in Question 1 and we kindly refer to our response there. We would like to reiterate that we have listened carefully to feedback from Members and market participants during bilateral engagements and the BWG as a result of which we amended in the Consultation the Minimum Volume Thresholds that were originally published in the White Paper.

Concerns around the frequency of review and amendments to the Thresholds

82. One respondent noted that the LME should publish the frequency and the criteria it will use to review the Minimum Volume Thresholds whilst another respondent objected to the fact that the LME would not be publicly consulting on future amendments to the Thresholds.

LME response

83. We have not received any feedback focusing on material issues or unintended consequences associated with the levels of the Thresholds.
84. As we have already noted in Question 1, we have carefully calibrated the Thresholds using a combination of bid-ask spread, the liquidity at depth in the order book and overall participation in the market.
85. As noted in the Consultation, the market should not assume that there will be future consultations on any revisions to the parameters of the Thresholds.

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

Suggestions in relation to fees and incentives

86. We received feedback suggesting that the LME should set up a new liquidity programme on monthlies instead of implementing an MVT Rule to encourage liquidity on LME Select. One respondent noted that the LME should consider introducing different fees for trading on LME Select and the inter-office market (by charging more per lot to trade in the inter-office market).



LME response

87. Introducing a new liquidity programme alone would not have changed the structural behaviour of Members and Clients. As per the Update, the LME intends to launch an LP Programme to directly provide liquidity on LME Select.
88. Whilst charging higher Exchange fees on the inter-office market compared to Exchange fees on LME Select was discussed in the LME's Discussion Paper on Market Structure published in 2021, we are not immediately progressing that initiative here, but note that it is an area for potential change to incentivise positive behaviour in the future.

Upgrading "core functionalities" on Select

89. Respondents noted that the LME should consider other ways of increasing liquidity on LME Select such as (i) offering implied Carry spreads; (ii) improving LME Select 10's core functionalities such as reinstating native iceberg orders, enabling more efficient execution of custom rolls, and increasing the FIX connection message rate to better support periods of heightened volatility and trading activity, (iii) improve procedures around allowing Clients to close out their positions and receive Cash on a T+2 basis; (iv) introduce a self-match prevention tool on LME Select 10 or (v) extending trading hours on LME Select.

LME response

90. As noted in the Update, there are several additional functionalities on LME Select 10 that we are looking to deliver including self-execution prevention, implied between spreads, tick size changes, and the new crossing order type all of which will positively contribute towards enhancing liquidity.
91. There are other potential changes such as native icebergs and throttle rates on which the LME is engaging separately with the market post LME Select 10 going live and considering the benefits and risks of introduction as well as potential timelines.
92. Some other items raised such as extending trading hours on LME Select and changes to close-out processes are longer term considerations for the LME, but we note that helpful feedback.

II. LME consideration and outcome

Consideration

93. As explained in the White Paper and in the Update, the LME is committed to a transparent and efficient market that serves the needs of all its users, both in the physical and financial market. The introduction of the MVT and the Crossing Rules serve the objectives of increasing liquidity and transparency on LME Select and align with the LME's core regulatory obligations.
94. Overall, we have worked to find the right balance between the objectives of the MVT Rule and the feedback provided. To reflect the feedback received during this Consultation:
 - We have further simplified the LMEsmart implementation of the MVT Rule and removed the requirement for new trade categories to support entry of sub-MVT trades that are exempt;
 - We are clarifying the drafting of the exception in Regulation 2.5A.3(a) and ensuring that it will apply to both an Equivalent Trade in the exact instruments and the combination of instruments that are equivalent and defining the concept of "Equivalent Trade" to that effect. We are clarifying the drafting of the exception in Regulation 2.5A.3(b) as well as clarifying that in all cases, a Member must first obtain the consent of the Client to execute on the basis of either exception;
 - We are clarifying the Blocks Guidance to the effect that all partial fills and executions should adhere to the MVT Rule;



95. We will continue to internally monitor market behaviour and review the MVT and the Crossing Rules to ensure that they remain fit for purpose. As already noted in the Consultation, the market should not assume that there will be future consultations on any revisions to the parameters of the Thresholds.

Outcome

96. The Consultation has confirmed that the MVT Rule and the Block Guidance as revised achieve the objectives of the MVT Rule.
97. To conclude, the LME will progress Regulation 2.5A. with the amendments discussed above.



B. The Prohibition on Pre-trade Communications on LME Select

I. Feedback received and LME's response

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.

98. The feedback was very supportive of the introduction of a prohibition on Pre-Trade Communications on LME Select with the exception of crosses compliant with the Crossing Rule and Guidance as this was consistent with standard market practice and prevention of market abuse requirements.
99. Below we have grouped and summarised responses challenging the prohibition on Pre-Trade Communications on LME Select by theme.

Market abuse concerns

100. One respondent noted that the exception to the prohibition on Pre-Trade Communications in LME Select (where a Member enters an order in LME Select in compliance with the Crossing Rule) could be gamed and breach market abuse legislation. Several respondents alluded to similar concerns in other elements of their responses.

LME response

101. We acknowledge this concern but, as noted above, we have powers to request information in Regulation 12.2 Part 2 of the Rulebook to ensure that Members comply with the MVT and Crossing Rules and align their market behaviour with our expected behaviour in our Guidance.
102. We have also simplified the drafting of Regulation 2.2A.1 and we have clarified that the prohibition of Pre-Trade Communications in LME Select does not prohibit communications between a Member and a Client that are made in good faith, are lawful and are for the purposes of discussing the parameters of an order. The definition of Pre-Trade Communications in the Glossary is revised accordingly.
103. To be clear, under Regulation 2.2A. Members may engage in Pre-Trade Communications in relation to Agreed Trades made in the inter-office market and, where permitted, in LME Select, only if such Pre-Trade Communications: (i) comply with market abuse legislation or any other applicable law or regulations; and (ii) comply with the Rules and, in particular, do not facilitate or amount to a prohibited practice set out in Regulation 14.9 of the Trading Regulations. Moreover, a Member must not disclose any information obtained in Pre-Trade Communications (or otherwise) to any person or make any other use of any such information or engage or attempt to engage in any other behaviour in breach of the Rules, market abuse legislation or any other applicable law or regulations.
104. In addition, we are clarifying that when engaging in permitted Pre-Trade Communications in LME Select, a Member must ensure that the price quoted during any permitted Pre-Trade Communications for a potential or future Agreed Trade is at Fair Market Value. When engaging in permitted Pre-Trade Communications in LME Select for the purposes of making use of the Crossing Rule, a Member must also have obtained the Client's consent before engaging in such Pre-Trade Communications.



Members should obtain the consent of their customer before engaging in Pre-Trade Communications

105. One respondent noted that draft Regulation 2.2A. should be amended to expressly require Members to obtain the consent of customers before any Pre-Trade Communications can take place.

LME response

106. We have taken this feedback into consideration. We are amending Regulation 2.2A.2 so that it requires Members to obtain prior consent from their Clients before engaging in any permitted Pre-Trade Communications in LME Select for the purposes of making use of the Crossing Rule.

Pre-Trade Communications should be allowed between a Member and its Affiliate

107. One respondent noted that draft Regulation 2.2A. should be amended to clarify that Pre-Trade Communications between a Member and its Affiliate are permitted.

LME response

108. We have taken this feedback into consideration. We are clarifying in Regulation 2.2A.1 that, more generally, Pre-Trade Communications between a Member and a Client in an agency relationship (which may include an Affiliate) are permitted in relation to Agreed Trades made in LME Select provided that these communications are made in good faith, are lawful and are for the purposes of discussing the parameters of the order in the ordinary course of business.

Revised Rule

109. Part 3 has been amended as follow (redline):

2.2A Pre-Trade Communications

2.2A.1 Pre-Trade Communications:

- (a) shall be permitted in relation to Agreed Trades made in the inter-office market; and
- ~~(b)~~ shall be permitted for PTT Orders; and
- ~~(c)~~ (b) shall not be permitted in relation to Agreed Trades made in LME Select except:-
 - (i) for legitimate and lawful business communications between a Member and a Client on the parameters of an order which will be entered by the Member on the Client's behalf; and
 - (ii) where Members enter an order resulting from such communications in LME Select in accordance with one of the methods of crossing specified by the Exchange in Regulation 2.4A.

2.2A.2 Where Members engage in permitted Pre-Trade Communications, Members shall:

- (a) ensure that the price quoted for the potential or future Agreed Trade is at Fair Market Value; and or
- (b) in the case of Regulation 2.2A.1 (b) (ii), have first obtained the Client's consent before engaging in Pre-Trade Communications.

2.2A.3 Where Pre-Trade Communications are permitted, a Member shall not:

- (a) engage in Pre-Trade Communications where to do so would breach market abuse legislation or any other applicable law or regulations;



- (b) disclose any information obtained in Pre-Trade Communications (or otherwise) or make any other use of such information or engage or attempt to engage in any other behaviour in breach of the Rules.

Breaches of relevant market abuse legislation or any other applicable laws or regulations shall constitute a breach of these Rules including as set out in Regulation 14.9.

2.2A.4 Regulation 2.2A shall not apply to:

- (a) communications between a Member and the Exchange; or
- (b) communications within a Member, provided that such communications comply with relevant market abuse legislation and any other applicable laws or regulations and the Rules.

II. LME consideration and outcome

- 110. In relation to Questions 5, 6 and 7, we note the unanimous support in favour of introducing a prohibition of Pre-Trade Communications in relation to LME Select that will apply to all LME Contracts and instruments, as it is standard across most peer markets.
- 111. On the basis of the above the LME will progress Regulation 2.2A. with the amendments presented above.



C. The Crossing Rule

I. Feedback received and LME's response

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 should be limited to Members only, and not be extended to DEA Clients? If not, please explain why.

112. We have grouped responses to Questions 8 and 9 together as there were large overlaps in the responses.
113. The feedback was broadly supportive of introducing a Crossing Rule, noting that the proposed crossing mechanism was standard and in line with other peer venues' practices.
114. We have summarised below responses challenging the creation of a Crossing Rule as an exception to the MVT Rule by theme.

Concerns on the costs and risks associated with implementing the Crossing Rule

115. One respondent opposed the Crossing Rule as a matter of principle, given that it opposed the introduction of an MVT Rule. A number of respondents objected to the Crossing Rule as they viewed the different crossing methods as impractical, including in terms of their ability to offer Clients a firm price, and/or noted that the automated crossing method would be costly for Members and market participants to implement. One respondent noted that the way in which the LME intended to create an automated crossing functionality in LME Select would be different to the crossing functionalities existing in peer exchanges. A few respondents stated that the MVT Rule and the Crossing Rule should not be implemented before automated crosses were live on LME Select.

LME response

116. We note that whilst standard on other markets, the manual crossing solution has some operational complexity and risk and therefore we intend to provide an automated crossing order type to support Members and reflecting the feedback received from the BWG and bilateral engagement.
117. We note that there are associated costs for Members and Clients in implementing the automated crossing functionality that Members have requested. The LME is investing in the development of this new order type and is engaging closely with ISVs to prepare for the introduction and minimise the Member and Client uplift.
118. As noted above, the automated crossing order type will support Members in continuing to be able to offer guaranteed risk prices to Clients trading below the MVT should they so wish and give them the opportunity to get better pricing on LME Select.
119. The LME notes the benefit of delivering the automated crossing order type ahead of the MVT Rule. The LME's intention is to deliver the new automated crossing order type as soon as possible ahead of the implementation of the MVT Rule and the LME will provide more details via Notice including test availability for Members and a roll-out plan.



Concerns that the Crossing Rule will require Members and market participants to pay additional Exchange fees

120. One respondent argued that the Crossing Rule would result in additional Exchange fees being paid by Members and market participants therefore making the LME less attractive than other peer markets.

LME response

121. Where a participant is directly executing on LME Select today the introduction of the MVT Rule will have no impact on their Exchange fees. If a Member were to utilise the crossing functionality, one side of that would be rebated by the Exchange, thus resulting in 3 sides in line with a participant who executed directly on LME Select. We note that bid-ask spreads represent a significant component of execution cost and therefore additional liquidity will ultimately benefit end-clients.

Concerns that the Crossing Rule will create pre-trade transparency in the inter-office market, something which is not required by regulation

122. One respondent was concerned that the Crossing Rule would create pre-trade transparency in the inter-office market which was not a regulatory obligation on the LME.

LME response

123. It is standard practice on other exchanges to have block thresholds and crossing functionalities. The combination of the MVT and Crossing Rules will enhance price competition and transparency, and protect price formation in the central market. All of these objectives align with the LME's core regulatory responsibilities.

Concerns relating to maintaining the anonymity of trading on LME Select when two Members trade and concerns about DEA Clients being able to use the crossing functionalities

124. There were some general concerns about the anonymity of trading on LME Select, in particular if two Members were separately entering their side of the crossing order.

125. Moreover, a number of respondents also expressed concerns about the drafting of Regulation 2.4A.3 and the Crossing Guidance in relation to DEA Clients in that manual crosses and/or automated crosses would be opened to DEA Clients. That said, we note that one respondent was supportive of Clients having access to either type of cross.

LME response

126. To deal with the concerns around the anonymity of trading on LME Select, we have updated the Crossing Guidance to reflect that where a Member is pre-arranging a trade with another Member, only one Member will be able to enter both sides of the trade on LME Select. This is important because some Members provide liquidity to other Members.

127. We are also deleting draft Regulation 2.4A.3 (which created an exception to the principle of anonymity of trading in LME Select for the purposes of the Crossing Rule) to make clear that trading on LME Select must be anonymous including where Members make use of the Crossing Rule.

128. We note Members' concerns around monitoring and compliance if two DEA Clients were to engage in pre-trade communications on LME Select.

129. Given the overall impact on Members' business models, we will not allow Clients to either do manual crosses or automated crosses. Clients will benefit from crossing with a Member who offers this service. Only Members will be able to cross either manually or in an automated way. To that effect we are clarifying the drafting of Regulation 2.4A so that only Members may make use of the Crossing Rule. However, we may revisit this at a later stage.

130. As noted above, we will provide more information in due course in relation to Member monitoring and LME's enforcement process in relation to the MVT and Crossing Rules.



Revised Rule

2.4A The Crossing Rule in LME Select

2.4A.1 Members who have engaged in Pre-Trade Communications in compliance with Regulation 2.2A.1(e) (b) shall enter the orders resulting from those communications into LME Select in accordance with the methods of crossing as specified by the Exchange from time to time in guidance published by Notice. For the purposes of complying with applicable pre-execution (price validation) checks, all orders entered in LME Select shall be entered at the clean price (that is net of commissions, credit charges and or fees). Only Members may use the Crossing Rule.

2.4A.2 Members, who have crossed first executed an Agreed Equivalent Trade on LME Select in accordance with the methods of crossing specified by the Exchange, may subsequently submit an the corresponding Agreed Trade for Execution in the inter-office market as permitted by in compliance with Regulation 2.5A.3 (b). Members may use the Crossing Rule irrespective of the size of the Agreed Trade.

~~2.4A.3 Regulations 12.3 and 12.4A(a), but only where these Regulations impose a duty on LME Select Participants to maintain the anonymity of LME Select trading activity, shall not apply where a LME Select Participant has entered an order into LME Select in accordance with a method of crossing as specified by the Exchange and has engaged in Pre-Trade Communications with another LME Select Participant prior to the cross. To be clear, a LME Select Participant remain bound at all times by the duty to maintain the confidentiality of the identity of its counterparty under Regulations 12.3 and 12.4A(a) including when making use of the Crossing Rule.~~

Regulation 2.4A shall be known as the ‘Crossing Rule’.

Concerns about the 5 seconds rule in the manual crossing

131. One respondent noted that the 5 seconds rule was reasonable and the mechanics made sense.
132. Several respondents noted that the 5 seconds rule in manual crossing to achieve a fill was unrealistic and/or difficult to monitor and enforce and/or would in reality create further delays in the order being input in LME Select. These respondents noted that where the manual crossing functionality would be used, there was a risk that displaying the Client’s order on LME Select would have the effect of moving the market away from the Client resulting in a less favourable price being provided to the Client or a failure to execute the order entirely.
133. Three respondents noted that for those trading during the Asian hours, the MVT and Crossing Rules were not favourable to them given the lower liquidity levels on LME Select during these hours.

LME response

134. We note that there is some complexity and challenge with the manual crossing solution which explains why we are delivering the automated crossing solution to mitigate the risk of the market moving away.
135. The Crossing Rule supports continued bilateral liquid provision in less liquid markets (should Members offer this service), and we note that a number of the challenges raised in relation to the manual cross are less impactful during periods of lower liquidity.

Q10: In your opinion are there any alternative or additional measures to the proposed introduction of a Crossing Rule the LME should consider?

136. We did not receive any specific comments on Question 10.



II. LME consideration and outcome

Consideration

137. We acknowledge the manual crossing solution (which is standard on other markets) has some operational complexity and risks. We are investing in the development of an automated crossing order type to support Members to provide risk prices to their Clients trading below the MVT should they so wish.
138. In relation to regulatory concerns, our view is that the MVT and Crossing Rules together will support the objectives of increasing price competition and transparency on LME Select and are aligned with our core regulatory obligations.
139. We note the concerns around DEA Clients engaging in pre-trade communications on LME Select. We have clarified that this was not our intention. Clients will not be allowed to either do manual crosses or automated crosses. Clients will benefit from crossing with a Member who offers this service.
140. We will provide more information in due course in relation to Member monitoring and LME's enforcement's process in relation to the MVT and Crossing Rules.

Outcome

141. The LME will progress the Crossing Rule with the amendments to Regulation 2.4A. presented above.

Next steps

142. The LME would like to thank the Members and market participants who provided written feedback to the Consultation. The LME very much appreciates the time and effort taken by all those who contributed. The responses represented a broad spectrum of industry stakeholders, including associations and industry bodies.
143. The LME accepts no responsibility or liability to any person with respect to any action taken or omitted to be taken by such person in reliance on any statement made in this Decision Notice. The LME may undertake subsequent consultations with respect to the implementation of specific proposals, in accordance with its usual consultation processes and applicable Rules.
144. The LME would welcome any Member or market participant wishing to arrange further discussion or seeking clarification in relation to the LME's implementation of the new Rules, however such discussions will not impact the LME's decision contained within this Decision Notice. Any questions to the LME should be directed to market.engagement@lme.com.

Jamie Turner
COO and Head of Trading

cc: Board directors
All Committees