

LME Options Roadmap



SETTING THE GLOBAL STANDARD



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1 Executive summary

This paper outlines the LME's plans to modernise its options market, leveraging the delivery of the new trading platform and building on feedback from the market. The primary objective is to enhance liquidity and transparency, lowering barriers to entry and broadening participation. LME options volumes as a percentage of LME futures volumes remain low relative to peer markets, demonstrating a significant opportunity to grow liquidity by standardising and modernising the LME options offering.

Grounded in extensive stakeholder feedback and a commitment to iterative delivery, the LME Options Roadmap ("**Roadmap**") sets out a clear plan to enhance the options market. The LME would like to thank the Traded Options Committee ("**TOC**") in particular for their crucial input into how the options market can be evolved to unlock greater liquidity and better serve the needs of the market.

The new trading platform, LMEselect v10, was successfully rolled out in Q1 2025. This has delivered a low latency, scalable platform capable of catering to the needs of an electronic options market. The LME is now in control of its own destiny in terms of delivering the new complex functionality required for the options market such as mass quotes and market maker protections.

This Roadmap sets out the LME's immediate priorities for the options market evolution, as well as a high-level sequencing for future enhancements. In other areas of potential market structure change, the LME will continue to engage with the market to discuss the potential merits and challenges.

The initial immediate priority is the move to an automated expiry process, as part of which the LME intends to consult on moving LME options from American to European style. The LME is actively working on this workstream and aims to deliver it as soon as practicable in the second half of 2026 (subject to consultation, regulatory engagement and broader industry engagement).

In parallel the LME is working on building out electronic premium quoted options ("**PQO**") functionality and required features related to quoting options, so that it can launch electronic options on LMEselect v10. The initial delivery of this will focus on outright instruments with a limited number of available strikes alongside mass quotes and required market maker protections (volume over time) together with a liquidity provider programme to support onscreen liquidity. The LME is aiming to start delivering this initial phase of electronic options by the end of 2026. The LME's work to enhance liquidity in the core futures contracts in Q1 2026 will also support the future delivery of electronic options, as options liquidity providers rely on electronic liquidity in the underlying monthly futures in order to competitively quote options.

Subsequent phases will deliver further enhancements iteratively, including more complex strategy creation and strike listing logic, variable tick sizes, advanced market maker protections and changes to the Closing Price methodology.

The LME is also keeping other important areas of potential market structure change under consideration including the potential for block trade thresholds, changes to the large-in-scale ("**LIS**") deferral logic, Request for Quote ("**RFQ**") functionality and additional short-dated options contracts. While there are no plans to introduce them at present they will be kept under review as the options market evolves.

This Roadmap provides clarity on the LME's immediate focus areas and demonstrates its commitment to enhancing the options market. In many areas consultations and further engagement will be required, and this may lead to changes to the detail of requirements or sequencing of initiatives. The LME website has been updated with a new section to keep the market abreast of developments in relation to the Roadmap and the

LME welcomes engagement from members, clients and the broader market on any topics touched upon in this document.

2 Background on options market enhancements

There are a number of areas of the LME options market on which the LME has been engaging with the market to consider potential changes and enhancements. In particular, the 2020 Options Market Discussion Paper (“**DP20**”) provided valuable feedback on the current challenges with the options market. The conclusions remain relevant and representative of the recent engagement the LME has conducted with the TOC and bilaterally with members and clients. The key areas that the LME has been discussing with the market are the following:

Automated expiry:

The current manual expiry process is considered a key source of operational risk and inefficiency. Manual workflows require multiple layers of communication between clients and clearing members, increasing the likelihood of errors and missed exercises - especially during periods of high market activity. Even without any operational error, the manual process means that clients who hold short positions in LME options are often not made aware of their assignments until several hours after the expiry time, exposing them to risks that they are not able to manage. Most participants support a move to automated expiry, noting that it would align the LME with global best practices, reduce operational risk, and provide greater certainty and predictability for all participants. Automated expiration would also help lower barriers to entry for new participants by simplifying operational processes.

European-style options:

While American-style options offer maximum flexibility, in practice, early exercise is extremely rare on the LME due to the margining methodology. The LME's discounted contingent variation margin (“**DCVM**”) methodology means that when an in-the-money option is exercised early, it does not immediately release the intrinsic value within the option, and as such the process is always “value reducing” as any remaining time value in the option is sacrificed. This characteristic also means that LME American options actually use a European pricing model. Many market participants suggest that formally adopting European-style options would simplify the expiry process, further reduce operational complexity, and make the LME's options market more accessible and familiar to a broader range of global participants.

Electronic options:

A central theme highlighted in stakeholder feedback is the need to develop an active electronic options market, particularly one quoted in premium terms. Electronic options would bring the LME in line with other major exchanges, improve transparency, and complement the existing bilateral inter-office market. Standardising the market structure and increasing intraday price transparency would lower the barrier to entry for new participants, especially those already active in other listed options markets. Electronic access would also support automated quoting and hedging strategies, making the market more attractive to institutional and algorithmic traders.

Features and programme to support liquidity provision

The success of an electronic options market would depend on robust liquidity provision. It is therefore crucial to introduce features such as mass quoting, market maker protections, and a liquidity provider programme to support deep and consistent liquidity. These tools are commonplace in other electronic options markets and are essential for enabling liquidity providers to manage risk and quote competitively across a wide range of strikes and expiries. Incentivising liquidity provision will be key to building a vibrant and resilient electronic options market on the LME.

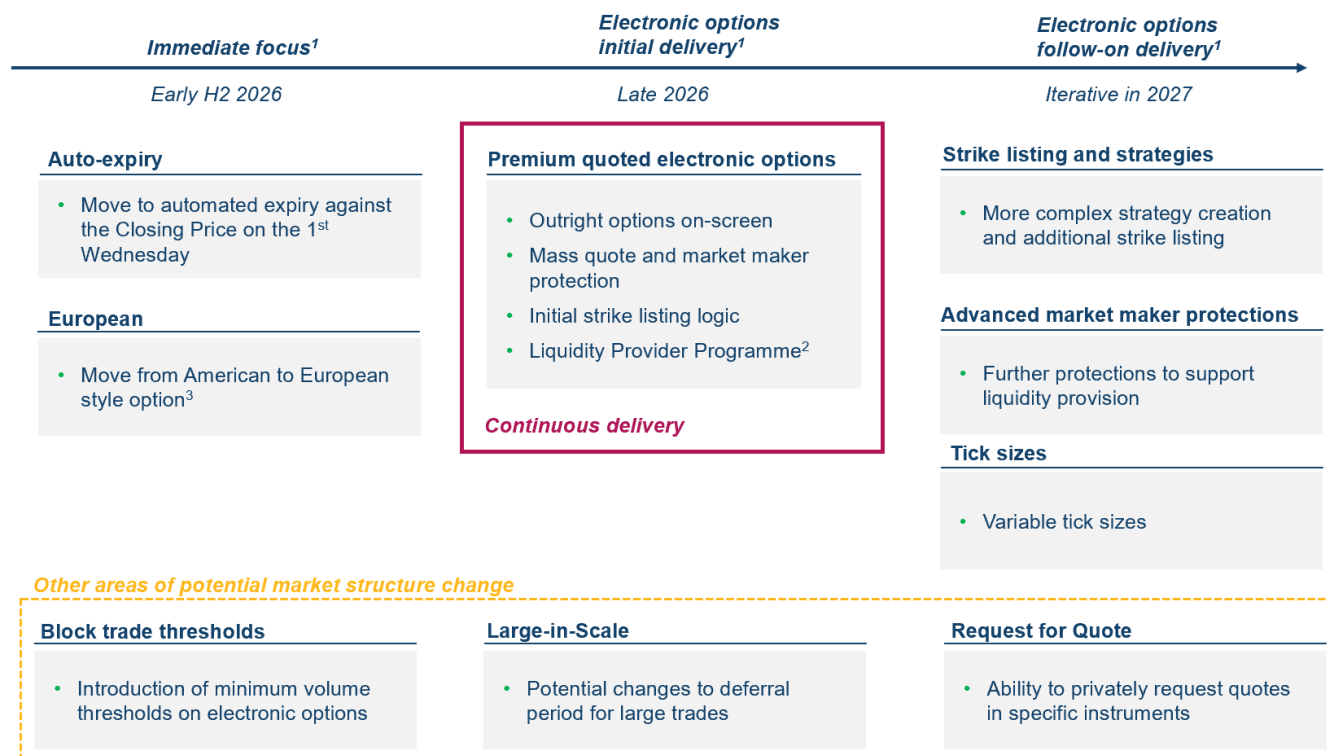
This feedback forms the basis of the Roadmap outlined in this document. The go-live of the new trading platform in Q1 2025 delivered the LME a low-latency, scalable infrastructure, allowing the LME to pursue its modernisation objectives for the options market with greater autonomy. The LME is therefore now re-focused on implementing a pathway of change to evolve the options market.

3 LME Options Roadmap

The LME is already working on a number of initiatives outlined in this Roadmap and is publishing this to provide the whole market with visibility of the options work underway and future work under consideration. As was recently discussed at the TOC and the User Committee, the LME has already mobilised resources to start work on the move to an automated expiry process. The consultation relating to this is being drafted and will be published in the coming months, with the delivery currently planned for early H2 2026 (subject to the consultation outcome, regulatory engagement and detailed delivery planning based on requirements).

The LME has also already started work on the changes required to roll out the initial delivery of electronic options and will now be actively engaging with the market to shape requirements and ensure participant readiness. The following graphic summarises the Roadmap including areas for future consideration. It should be noted that this represents indicative high-level sequencing and will continue to be developed moving forwards (and subject to consultation, regulatory engagement and detailed planning based on the final technical specification).

3.1 LME Options Roadmap



1. A number of these measures are subject to Consultation and regulatory engagement. Purely indicative roadmap to illustrate potential sequencing and areas of focus
 2. LP programme likely early 2027 following technical delivery of electronic options
 3. The LME intends to suspend trading in non-USD options ahead of any move

3.2 Automated Expiry Process and move to European

LME position

- The LME believes it would be beneficial to move to an automated expiry process and intends to consult on this topic in late 2025
- Alongside this the LME believes it would be beneficial to move to European style options

Automating the options expiry process is a foundational step in reducing operational risk and encouraging greater participation. The current manual expiry process introduces operational complexity and risk. Manual workflows require multiple layers of communication between clients and clearing members, increasing the likelihood of errors and missed exercises. Automated expiry, by contrast, aligns with global best practices and provides a more robust and predictable framework. It reduces the burden on operations teams, enhances certainty for market participants, and supports broader participation by removing barriers to entry associated with manual intervention.

The LME's current thinking is that if it were to move to automated expiry, then the options would expire against the relevant Closing Price on the first Wednesday of each month and it would not support contrary instructions as this would add uncertainty and operational complexity and is not in line with most peer markets. This will be discussed in more detail in the consultation on moving to an automated expiry process.

The LME recognises the importance of transparency, reliability and speed of publication in relation to the relevant Closing Prices used for expiry. The Closing Prices represent the most liquid and representative pricing period and the new VWAP methodology delivered in Q1 2024 provides a fully transparent and replicable pricing methodology. The LME will work closely with the market to ensure that there is full comfort and understanding of the pricing methodology and will continue to consider any changes to the detail of the pricing process including price dissemination on expiry day and the impact of price bands and volatility controls.

The DP20 feedback supported a European-style expiry model without contrary instructions (also known as "contras"), citing the lack of certainty in current practices. This change will simplify operations and align with global standards.

Ahead of the potential change to automated expiry, the LME intends to suspend trading in non-USD options which have not traded for a number of years. Further details on this will be announced to the market via Notice.

3.2.1 Indicative timeline

Delivery currently planned for early H2 2026 (subject to the consultation outcome, regulatory engagement and detailed delivery planning basis requirements).

3.3 Electronic Options – initial delivery

LME position

- The LME believes a liquid onscreen premium quoted market will complement the existing bilateral inter-office market
- The LME believes additional transparency and onscreen liquidity will broaden participation and ultimately improve overall liquidity in the LME options market

The next major focus area for the development of the LME options market is launching an onscreen PQO market, to complement the existing bilateral inter-office market (which is traded in both volatility and premium quoted terms) and align with other markets supporting participation from end users who are used to executing on other markets in this way.

By creating more intraday transparency and standardising the market structure it will lower the barriers to entry for new participants and give confidence to position holders in their ability to enter or exit positions.

The delivery of LMEselect v10 in Q1 2025 has provided a low latency, scalable trading platform capable of iteratively adding new functionality required to support an electronic options market. The platform already supports mass cancel functionality and during volatile periods in 2025 (driven by global tariff uncertainty amongst other events) has demonstrated the consistent performance and determinism of the new system. This was a key step required to allow the LME to re-focus its attention on evolving its options offering to better suit the needs of the market.

The LME is therefore now working on the requirements and testing required to launch PQOs on the new platform along with the key functionality required. It should be noted that the LME intends to deliver changes iteratively with its new trading platform, aiming to bring new functionality to the market sooner, and continuing to enhance and build out more advanced versions to support further evolution.

The initial delivery of electronic options will include:

- **Premium Quoted Onscreen options:** allowing options to be quoted and traded in premium terms on LMEselect v10
- **Outright options:** initial focus on outright options only (strategies will be a follow-on delivery)
- **Mass quotes:** allowing liquidity providers to efficiently quote multiple instruments
- **Market maker protections (“MMP”):** initially delivering volume-over-time (with other MMPs to follow)
- **Simple strike listing:** defined number of strikes from ATM auto listed each day
- **Liquidity provider programme:** focused on a limited number of strikes in the first four monthly expiries, to support onscreen liquidity and intraday price transparency

In some areas such as mass quotes and MMP there is already some information available on the proposed technical specification in the functional definition document on the LME website. In other areas the LME will endeavour to publish more detailed information as soon as possible to support participant readiness.

3.3.1 Indicative timeline

The initial delivery of electronic options is currently planned to begin at the end of H2 2026 (subject to consultation, regulatory engagement and detailed delivery planning basis requirements). However, as noted, the LME is moving to a model of more frequent delivery and will continue to update the market on its progress.

3.4 Electronic Options – follow-on deliveries

LME position

- The LME will look to continually deliver more advanced functionality and feature enhancements to support electronic options
- This includes additional market maker protections, auto listing more strikes, and variable tick sizes

Beyond the initial delivery of electronic options, the LME will explore additional enhancements including complex strategies, more sophisticated market maker protections, and changes to end-of-day pricing. These developments will be guided by market feedback and delivered iteratively.

The follow-on functionality will include:

- **Additional MMP:** including cumulative percentage of resting orders filled over time and total instruments over time as well as consideration of MMP on the options Greeks in the future. This will further support liquidity provision
- **Complex strike listing:** more strikes to be auto-listed, and the potential for participants to create other strikes which have not been automatically created
- **Strategies:** supporting options strategies and user-defined strategy creation requests to support end users in creating the exact strategies they need to trade
- **RFQ (public):** allowing participants to publicly indicate an interest in a specific instrument or strategy
- **Tick sizes:** consideration of supporting variable tick sizes where the tick size is more granular where the premium price is below certain thresholds
- **Closing Price enhancements:** consideration of integrating electronic pricing into the end-of-day options Closing Price generation process

3.4.1 Indicative timeline

Future enhancements will be rolled out incrementally from 2027 onwards, based on market readiness and technical feasibility (as well as consultation and regulatory engagement where required).

3.5 Other areas of potential market structure change

LME position

- The LME will continue to consider other areas of potential market structure reform for the options market
- This includes topics like block trade thresholds, changes to LIS deferral and private RFQ functionality

The LME will also continue to consider broader market structure changes such as block trade thresholds, modifications to LIS deferral mechanisms, and private RFQ. In these areas it will continue to engage with the market as the options market evolves with the delivery of automated expiry and the initial phase of electronic options. Areas for future consideration include:

- **Block trade thresholds:** the minimum size for which trades can be executed away from the electronic market, any implementation and calibration would need to balance the need to enhance electronic liquidity against the need to be able to execute trades bilaterally – particularly for larger trades
- **LIS changes:** consideration of whether the current T+1 deferral period remains optimal and whether it may be beneficial to publish at 19.00 on T or some other shorter delay period
- **Private RFQ:** consideration of whether it would benefit the market to have a bilateral private RFQ mechanism (in addition to the public RFQ message) such that larger bilateral trades can be more efficiently quoted. This could entail utilising some form of anonymous identification to support liquidity providers in protecting against adverse selection

3.5.1 Indicative timeline

Discussions on these topics will continue with the market and any potential implementation timelines will be determined and communicated to the market in due course.

4 Market engagement

The purpose of this Roadmap is to outline the LME's proposed high-level approach and potential sequencing of initiatives to evolve and enhance its options market. While this is not a discussion paper or a consultation, the LME welcomes feedback in any area. Stakeholders can reach out to their existing contacts, or email market.engagement@lme.com

5 Next steps

It should be noted that a number of potential initiatives or changes may require consultations, and the LME will provide further details of any such consultation via market Notice. Some initiatives may be subject to regulatory approvals.

The LME website will be updated for any developments, additional detail or notices related to the Options Roadmap.