Disruption Event Framework

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1 Introduction

This Disruption Event Framework (the "**Framework**") was introduced by the London Metal Exchange (the "**LME**") in March 2022 following the implementation of daily price limits ("**DPLs**") pursuant to LME Decision Notice 24/134 of 2 April 2024.

This Framework establishes a consistent and transparent approach for identifying, declaring and managing circumstances in which market disruptions affect the determination of the Official Prices or Closing Prices. It sets out how disrupted prices are treated for pricing, settlement, margining and related calculations to support orderly market operations and pricing integrity.

This Framework should be read in conjunction with the relevant pricing methodologies and the Daily Price Limit Multiple Day Framework (as amended from time to time) (the "**DPL MD Framework**").

2 Scope

This Framework applies to all Contracts that are subject to DPLs.

3 Defined Terms

Capitalised terms not otherwise defined in this Framework shall have the meaning ascribed to them in the LME Rulebook.

4 Disruption Event

A "**Disruption Event**" is any event that causes the LME to notify the market that an Official Price or Closing Price has been disrupted on a particular Business Day.

Without limitation, and subject to section 4.1 below, disruptions may include the following:

a) The suspension of trading of a Contract on any Business Day (unless the suspension takes effect after the LME has declared the Official Prices or Closing Prices (as applicable) for that day and the LME considers the price(s) to be reflective);

b) For each Contract, where a DPL is reached for any Prompt Date in that metal, or would be implied to be reached by a combination of an outright and a carry, by way of a trade taking place at the DPL, a bid being placed at an upper DPL, or an offer being placed at a lower DPL, during the period within which such prices are generally recognised on a given Business Day;

c) Where any price is discovered using a Volume Weighted Average Price ("**VWAP**"), and a DPL is hit at any time during the VWAP window; and

d) In general, in relation to the establishment of Official Prices (in the Ring) where the DPL impacts the ability of market participants to appropriately hedge the relevant Official Price or Closing Price.

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[1] The Disruption Events framework was introduced by LME Notice 22/064 and subsequently updated and consolidated by LME Notice 22/092. This Framework replaces the provisions relating to Disruption Events contained in those Notices and restates them herein.

[2] As defined in LME Notice 24/134 of 2 April 2024 and in the form available at https://www.lme.com/trading/volatility-controls-price-limits-and-price-bands/daily-price-limit-multiple-day-framework.

4.1 Disruption Event Determination

The LME shall, in its absolute discretion, determine whether a Disruption Event has occurred. The general principle applied will be whether a DP LO's suspension has impacted the ability of participants to appropriately hedge the relevant Official Price or Closing Price.

Typically, a Disruption Event in any Prompt Date for the Official Prices shall apply to all Prompt Dates for which Official Prices are determined. Similarly, a Disruption Event in any Prompt Date for the Closing Prices shall typically apply to all Prompt Dates for which Closing Prices are determined. However, the LME may apply expert judgement to make its determination.

4.2 Disruption Event Notification

Where the LME has determined that a Disruption Event has occurred, the LME will inform the market as soon as possible following its determination.

An Official Price or Closing Price that is determined to be subject to a Disruption Event will be referred to in relevant LME communications as a "**Disrupted Official Price**" or a "**Disrupted Closing Price**", in order to clarify the status of these prices for the purposes of use by market data customers in relation to non-LME Contracts (see further section 5 below).

The LME will notify market participants of a Disruption Event in the following ways:

a) in the interests of time, by email using existing email mailing lists (including the mailing list used to disseminate Notices, and the mailing list used to disseminate market data notifications);

b) publishing a Notice to the LME website as soon as possible following the Disruption Event; and

c) listing all Disrupted Official Prices and Disrupted Closing Prices on the LME website as soon as practicable following the Disruption Event.

Market participants are advised that, given the types of Disruption Event described in section 4, notification of a Disruption Event may occur on short notice.

4.3 Disruption Events for Official Prices

Where Official Prices are determined in the Ring, the price is able to push the DP LO ahead of the point of price discovery (e.g. the end of the Ring session) but to be deemed to be a Disruption Event (if the price moved away from the DP LO by the end of the Ring session).

Where the LME determines that an Official Price is subject to a Disruption Event as defined in section 4, the relevant Ring session for that metal will be deemed a disputed session. As a result, all Agreed Trades during this session will be void and void. Consequently, no Agreed Trades shall be entered into the Matching System, and no Contracts shall be formed under the LME Rulebook or the LME Clear Rules.

Where Official Prices are determined based on trading activity data from LME Select, the disruptions set out in 4(b) and 4(c) also apply in respect of these prices.

[3] As at the date of this Framework, the webpage is as follows: https://www.lme.com/market-data/disruption-events

4.4 Price-code trades

Where Members agree price-code trades (e.g. guaranteed Official Price codes) conditional on prices being discovered in a Disruption Event, they may reverse these trades.

5 Consequences of a Disruption Event occurring

Where a Disruption Event occurs after an Official Price or Closing Price has been determined for a Prompt Date but before the relevant Prompt Date, such prices shall remain unaffected. Any Disputed Official Price or Disputed Closing Price determined in accordance with the relevant Pricing Methodology shall be used by the LME for the settlement of physical Contracts or margining, as applicable.

Where the Closing Prices are used as the Exercise Reference Prices for Metal Options (or Exchange-Traded Options in LME Clear, mutatis mutandis), and where a Disruption Event occurs on the Expiry Day for Metal Options, the Disputed Closing Prices shall be considered the Exercise Reference Price.

The LME will continue to publish these Disputed Official Prices and Disputed Closing Prices on its market data feeds. However, such prices shall not formally constitute Official Prices and Closing Prices for the purposes of contracts that are not LME Contracts.

Market participants that use LME prices, for example as reference prices for OTC contracts or for derived data purposes, are advised to have regard to relevant contractual terms (e.g. with respect to interpolation) to determine the impact that Disruption Events (and the consequential effect on LME prices) may have. The guidance in this Framework should be relied on to assess such impact.

Following a Disruption Event, the LME will consider whether to declare a Qualifying Event as set out in the Daily Price Limit Multiple Day Framework.

6 Calculation of MASPs, MMAPs and NAPs

Official Prices and Closing Prices are variously (and as detailed further in the applicable Benchmark Methodology published on the LME website) used as input data for the Monthly Average Settlement Prices ("**MASPs**"),[4] Monthly Moving Average Prices ("**MMAPs**") and Notional Average Prices ("**NAPs**").

These prices in turn are used by the LME to price and by LME Clear to margin Monthly Average Futures ("**MAFs**") and Traded Average Price Options ("**TAPOs**"). This Framework sets out guidance as to how these prices will be calculated during a monthly averaging period in which a Disruption Event occurs. For the avoidance of doubt, this approach shall apply in relation to all times where a Disruption Event occurs.

To ensure the integrity of the MASP and NAP calculation averaging periods during periods affected by a Disruption Event, each Business Day where a Disruption Event has occurred shall continue to count as a Business Day for the purposes of each pricing calculation. However, the Official Price/Closing Price for each affected Business Day will instead be the next available Official Price/Closing Price (as applicable) in the relevant averaging calculation (see section 6.1 for guidance on Disruption Events at the end of the averaging period). By applying this method, the number of Business Days within the relevant averaging period will remain the same overall. The LME understands that this is an important consideration in relation to hedging transactions that are entered into OTC, and with the associated exchange MAF and TAPO positions.

[4] Defined in the LME Rulebook as the "Moving Monthly Average Settlement Price" but referred to in this Notice as the Monthly Moving Average Price or MMAP in order to reflect market convention.

It should be noted that where a Disruption Event has occurred, the MVAR may continue to be calculated and disseminated using any Disputed Official Prices for the relevant metal and these may not be accurate for that reason. Subject to the election in Section 5, the Disputed Official Price(s)/Disputed Closing Price(s) will still be used as input data for MARs which are used for margining purposes for MAFs and IAPCs.

6.1 Month End Disruption Event

Where a Disruption Event occurs on the last business day of the month ("**Month End Disruption Event**"), the Official Price for the next available Business Day, where there is no Official Price Disruption Event, will be used as input data for MASP calculations.

If there are five consecutive Disruption Events for a particular Official Price following a Month End Disruption Event, and the fifth Disruption Event has been caused by reaching DPLs, then the most recent relevant Disputed Official Price will be used as input data for the MASP as the value for the date of the Month End Disruption Event and any consecutive preceding dates where the Official Price was disputed. If (following a Month End Disruption Event and five or more consecutive Disruption Events) the fifth Business Day is a Disputed Official Price caused by the market being suspended, the relevant LME may use expert judgement to determine the Official Price that will be used as input data for the MASP (such as the value for the date of the Month End Disruption Event and any consecutive preceding dates where the Official Price was disputed).

In the event of a Month End Disruption Event, MAFs and IAPCs will be settled using the MASP that includes the Disputed Official Prices (back-filling the month end Disputed Official Price, if necessary, as described above). Cash flows will be adjusted subsequently so as to create a balancing payment between LME Clear and the Member to reflect the final corrected MASP once it has been determined using the methodology outlined above.

Regulation 14 of Part 3 of the LME Rules sets out prohibited behaviours, and Members are reminded of their obligations under this Regulation, particularly in the context of Disruption Events.

The LME understands that some market participants use averaging calculations based on the Official Prices and/or Closing Prices to value OTC average contracts. Market participants are reminded that they should have regard to the contractual terms which their counterparties deem most appropriate if any Disruption Events and/or subsequent elections in LME prices may have on these contracts. The guidance in this Framework should be relied on to assess the impact to OTC contracts.

7 Cash Settled Futures

The Cash Settled Futures Daily Settlement Prices (also Closing Prices for the purposes of this Framework) are reference prices determined by the LME in accordance with the methodology set out on the LME website. This Framework also applies to those Cash Settled Futures that are subject to DPLs.

The Cash Settled Futures Final Settlement Prices ("**Final Settlement Price**") are LME administered prices and are provided to the LME by third party providers. The occurrence of a Disruption Event affecting a Cash Settled Future Daily Settlement Price or any other applicable Closing Price shall not, in itself, affect the applicable Final Settlement Price. Where a Disruption Event is declared in respect of a Cash Settled Futures Daily Settlement Price on the last trading day on which a Final Settlement Price is published, the LME will publish the Final Settlement Price as provided by the relevant third party provider, and that price shall continue to be used for final settlement in accordance with the applicable Contract specifications. The LME will, however, publish a Disruption Event Notice (pursuant to section 4.2 of this Framework) to notify the market of those prices that are considered Disputed Closing Prices and the treatment of the relevant Final Settlement Price.

In determining whether a Disruption Event has occurred in respect of a Cash-Settled Future, the LME may have regard to such circumstances as it considers relevant, including trading activity, liquidity, price movements and volatility in equivalent or related products traded on the exchange or trading venue.

The LME may also, in its absolute discretion, determine that a Disruption Event has occurred, including without limitation where trading in the relevant Cash-Settled Future is at a level that is sufficiently close to its applicable DPL.

8 Document Change History:

Version	Date
1.0	27/10/2020
1.1	27/10/2020