

LMEprecious

Frequently asked questions – general questions

LMEprecious is the new initiative created by the London Metal Exchange (LME), the World Gold Council and a group of leading industry players to introduce exchange-traded, loco London precious metals products.

LMEprecious has initially introduced centrally cleared gold and silver futures contracts, and provides new opportunities for trading, price discovery and risk management together with an enhanced market structure for the precious metals community.

Trading

Where is LMEprecious traded?

LMEprecious is traded on LMEselect, the LME's electronic trading venue, and the inter-office telephone market. Trades on LMEselect are automatically and immediately cleared by LME Clear at the time the trade is executed. (On LMEselect, trades are executed at the time two orders are matched in LMEselect; on the inter-office market, execution occurs when trade halves are entered into the LME's matching system, LMEsmart.)

What prompt dates are available for LMEprecious products?

Gold and silver are available for trading on a daily basis, from T+1 (TOM), T+2 (SPOT), through to T+25. LMEprecious also offers monthly dates for at least 24 months (third Wednesday prompt dates) and then quarterly dates out to 5 years, as defined in the LME Rulebook.

What prompt dates are available to trade on LMEselect?

In order to maximise on-screen liquidity and keep barriers to entry low (in terms of market data bandwidth required) we offer a refined daily

date structure on LMEselect. Gold and silver are tradable on LMEselect for T+1 (TOM), T+2 (SPOT), T+3 and then all the monthly and quarterly dates as described above and defined in the LME Rulebook.

What is a prompt date?

A 'prompt date' is the settlement date of a future or forward contract. This term is synonymous with the term 'value date' commonly used in the OTC precious metals market.

What is the minimum price fluctuation (tick size) for the contracts?

On LMEselect the tick size for gold outrights is \$0.10 and for silver outrights is \$0.005. In the inter-office market the tick size for gold is \$0.001 and for silver is \$0.00001.

What is the tick size for calendar spread trades?

There is a separate order book for calendar spreads with increased granularity. On LMEselect and in the inter-office market the tick size for gold spreads is \$0.001 and for silver spreads is \$0.00001.

What are the market hours for trading LMEprecious?

On LMEselect the contracts are available to trade from 01.00-20.00 (London time) for all prompt dates except TOM, which is available to trade from 01.00-16.00 each day. The inter-office telephone market is open 24 hours a day for all LME products.

What are the trading and clearing fees?

For the monthly outrights the combined trading and clearing fees will be \$0.50 for house trades and \$0.90 for client trades. There are further discounts including for Spot, Tom/Next and interoffice trades. A full fee schedule can be found on the LME website.

Can I have a separate trading mnemonic for LMEprecious?

Yes, existing LME members have the option of either a separate trading mnemonic, or they can use their existing trading mnemonic.

Is LMEprecious available on the LMEselect GUI?

Yes, the LMEselect GUI is available for LMEprecious products, although special consideration will be needed to accommodate the high level of LMEprecious order book activity anticipated, which could affect capacity and performance. Separate GUI logins are required for LMEprecious and LME base metals, and it is not possible to access both sets of products at the same time from a single instance of the GUI. If simultaneous access is required, separate instances of the GUI software on separate hardware are needed to ensure adequate capacity and performance. GUI usage recommendations for LMEprecious are outlined in an LMEselect GUI guide on our website.

Does LMEprecious offer self-trade protection?

Self-trades, sometimes called “green trades”, means, broadly:

- (a) two clients of the same member in LMEselect trading with each other legitimately through order routing on the API; or
- (b) an in house trader trading with an in-house trader (both of the same member) on the API; or
- c) an in-house trader trading with a client through order routing on the API.

The current approach for LME base metals is that such transactions are suppressed in LMEselect so that they do not flow into LMEsmart. This suppression functionality is not available to members for LMEprecious. The LME is aware that there are a number of legitimate trading scenarios whereby a member may take both sides of a trade in LMEselect, and so it would not be appropriate to restrict such activity. Where such activity does take place, members should be aware that the resulting transactions will flow automatically from LMEselect to LMEsmart, and from there to LMEmercury, where the transaction will be cleared and published to the market. Members are reminded, however, to ensure that they have appropriate controls and procedures in place to prevent any inappropriate self-matching of orders in LMEselect.

Note – the approach for LME base metals is currently under review and further communications may be made on this in due course.

What bandwidth connection is required to get access to the LMEprecious contracts?

With significant order book activity expected, LMEprecious market participants should ensure that they plan for sufficient bandwidth both within their own systems and through LMEnet to access LMEprecious products, and are recommended to undertake a review of bandwidth requirements at least quarterly. We

advise members who wish to access LMEprecious to ensure they have at least a 10Mb connection; in the event that bandwidth capacity is exceeded, either through bursting or a sustained level of peak traffic, then members may experience delays in the receipt of market data and could, in certain circumstances, experience temporary disconnections.

Do the same bandwidth considerations apply to market data vendors?

Market data vendors should plan for sufficient bandwidth in their own systems and through LMEnet. Specific information relating to LMEprecious for market data vendors is contained in relevant notices available from the Market Data Team at the LME.

Do you have market makers providing liquidity?

We have partnered with a number of industry participants who have committed to provide liquidity, creating a tight and liquid order book down the curve from day one. This means there will be quotes down the curve providing liquidity to execute orders, roll positions and close out existing positions where required. For more information on LMEprecious market making, including the price streaming commitments for gold and silver, please refer to [LME Notice 17/229](#).

Which ISVs offer LMEprecious products?

A list of ISVs offering LMEprecious is available on the [LME website](#). We will continue to update this list as ISVs confirm readiness for LMEprecious.

How can I book client trades directly into the client account? Will the contracts use a T2 booking model?

LMEprecious will be adopting a T2-style trade-booking model, similar to other major futures exchanges. For LMEprecious a client trade can be booked directly into the relevant ISA/OSA account at their LME clearing member, removing

the need for an extra 'client cross' from the clearing member's house account. For the avoidance of doubt, the change in booking methodology does not impact the legal contractual framework of the LME.

So does this mean that a member can't fill a client order off their own book?

Members are able to fill a client order off their own book and enter the trades into matching as inter-office trades.

When does matching close?

Matching closes at 20.15 London time for all prompt dates except TOM, for which it closes at 17.00. Trades on the inter-office market must also be entered into matching within the matching deadline (10 minutes) as further set out in consultation notice 16/361 : A354, subject to transitional provisions until January 2018.

Clearing

How are the contracts margined?

Initial margin is calculated using the existing SPAN algorithm and valued on a Realised Variation Margin (RVM) basis, to allow trading profits to be easily realised.

What are the initial margin rates?

Metal	Jul-17	% Price
AU	84	6.7%
AG	2.58	15%

The margin values for precious and existing base contracts will be contained in the same SPAN file.

Is there margin offset between gold and silver?

Yes. LME Clear provides a margin offset, which is currently 60%.

Is there any margin offset between LMEprecious and LME base metals?

There are no offsets; base metals and precious metals will be margined separately.

Do members require a separate clearing mnemonic?

Yes, LMEprecious members require a separate clearing mnemonic for precious metals.

Is there a separate default fund for LMEprecious?

Yes. This decision was based on member feedback and ensures members can retain a choice as to whether to be exposed to base metals and/or precious metals.

Settlement

How are daily settlement prices established?

Daily settlement prices are determined using a waterfall methodology, Volume Weighted Average Price (VWAP) approach, based upon LMEselect trading activity during a relevant settlement window and/or other relevant data, where appropriate.

How does the delivery process work?

Delivery will take place via the existing London market infrastructure. Settlement is on a net account basis with transfers of unallocated gold made between the clearing member's unallocated loco London precious metal account and LME Clear's unallocated loco London precious metal account, as described below.

What is the delivery fee for trades that go to settlement?

LME Clear will pass on a fixed fee per debit or credit of unallocated gold. This is currently \$5 per transfer. This is a fixed fee per transfer regardless of the number of lots.

Accessing the contracts

How can I access the LMEprecious products?



What are the exchange membership options for LMEprecious?

Membership is available as an LMEprecious General Clearing Member (GCM), an Individual Clearing Member (ICM) or a Non-Clearing Member (NCM).

What do existing LME members need to do in order to clear LMEprecious?

All members wishing to participate need to opt-in to access the new precious metals contracts. Importantly, members that wish to clear LMEprecious will need to have or establish an unallocated precious metal account with a London Precious Metals Clearing Limited (LPMCL) member, which is used to make transfer and take delivery of gold and silver.

How does a member open a loco London unallocated account?

Five banks currently offer unallocated loco London precious metal accounts. These are:

- HSBC Bank
- ICBC Standard Bank
- JP Morgan
- Scotiabank
- UBS

Relevant contact details can be found at LPMCL's website <http://lpmcl.com/>. LPMCL is the organisation that coordinates the London unallocated delivery process.

What do clients need to do in order to trade LMEprecious?

Clients should contact their LME clearing member to confirm if they are offering LMEprecious clearing services. Clients who are new to the LME can find a list of LME clearing members offering LMEprecious on the LME website. This list will be updated regularly, so please let us know if your preferred clearer is not yet listed.

Will clients/NCMs need to open subaccounts at their GCM's loco London account, or can they use their own?

This will be at the discretion of the GCM. Clients may be required to open their own loco London unallocated account if they don't already have one.

Regulation

Will LMEprecious trading activity trigger an EMIR reporting requirement for OTC gold derivative transactions?

An OTC gold derivative contract will not automatically become subject to the reporting requirements under EMIR because LMEprecious contracts are available for trading on the LME (a regulated market).

An OTC derivative contract is reportable under Article 9 of EMIR if it falls within the definition of "derivative contract" under the Markets in Financial Instruments Directive ("MiFID") or, from 2018, MiFID II. A gold derivative could fall within the scope of the current MiFID definition if it: (i) can be physically settled; (ii) is not traded on a regulated market, MTF or OTF; (iii) is not for commercial purposes; and (iv) has the characteristics of other derivative instruments (such that it would be a financial instrument falling under category C7 of the Annex to MiFID). Under MiFID, an OTC derivative is currently able to fall within the C7 category if it is "expressly stated" to be equivalent to an exchange-traded contract. Consequently, an OTC gold contract could currently be reportable under EMIR if it is expressly stated to be equivalent to an LMEprecious contract.

However, when MiFID II is implemented in 2018, a physically settling OTC commodity derivative will be capable of being a derivative contract under category C7 (and therefore reportable under EMIR) if it is "equivalent to a contract traded on a regulated market". It will no longer be necessary for such equivalence to be "expressly stated". In order to assess equivalence, it will instead be necessary to consider the features of the OTC contract, including the price, the lot, the delivery date and other contractual terms, including the quality of the underlying gold and the place of delivery. An OTC contract that is closely matched to the features of an LMEprecious contract could

therefore be capable of being treated as a reportable C7 contract, on the basis that it would be equivalent to an exchange-traded contract. However, an OTC contract that differs in material respects from the LMEprecious contract ought not to be treated as a C7 contract simply because LMEprecious contracts are available for trading on the LME.

For example, all LMEprecious contracts use LME prices for the purposes of settlement; an OTC gold contract that uses a different settlement price would therefore operate differently from an LMEprecious contract, with different results for those trading in it. Given that price is an important factor in determining equivalence, such a differently priced contract should be materially different from, and therefore unlikely to be equivalent to, the LMEprecious contract.

A firm that is considering whether a particular contract is reportable under EMIR will need to consider whether there may be other reasons why the contract might be reportable, taking into account all the circumstances relevant to that contract.

You should note, in addition to the disclaimer at the end of this document (which also apply to this answer), that the position described in this answer reflects the LME's understanding of the relevant regulatory requirements as at September 2017. It is not legal or compliance advice and the LME does not intend or expect reliance to be placed upon it by any person. Firms should take their own legal advice as to the applicability of regulatory requirements (including the EMIR reporting requirements) to their transactions and business activities.

Contact us

For general LMEprecious support and enquiries please email lmeprecious@lme.com

Visit our website for more information
lme.com/lmeprecious

For a list of members offering access to our gold and silver contracts, please visit
lme.com/memberslmeprecious

© The London Metal Exchange (the “LME”), 2017. The London Metal Exchange logo is a registered trademark of The London Metal Exchange.

All rights reserved. All information contained within this document (the “Information”) is provided for reference purposes only. While the LME endeavours to ensure the accuracy, reliability and completeness of the Information, neither the LME, nor any of its affiliates makes any warranty or representation, express or implied, or accepts any responsibility or liability for, the accuracy, completeness, reliability or suitability of the Information for any particular purpose. The LME accepts no liability whatsoever to any person for any loss or damage arising from any inaccuracy or omission in the Information or from any consequence, decision, action or non-action based on or in reliance upon the Information.

The Information does not, and is not intended to, constitute investment advice, commentary or a recommendation to make any investment decision. The LME is not acting for any person to whom it has provided the Information. Persons receiving the Information are not clients of the LME and accordingly the LME is not responsible for providing any such persons with regulatory or other protections. All persons in receipt of the Information should obtain independent investment, legal, tax and other relevant advice before making any decisions based on the Information.

LME contracts may only be offered or sold to United States foreign futures and options customers by firms registered with the Commodity Futures Trading Commission (CFTC), or firms who are permitted to solicit and accept money from US futures and options customers for trading on the LME pursuant to CFTC rule 30.10.

THE LONDON METAL EXCHANGE

10 Finsbury Square, London EC2A 1AJ | Tel +44 (0)20 7113 888