

To: All Members

Ref: 17/124

Classification: Consultation

Date: 10 April 2017

Subject: **CONSULTATION ON ACCOUNTABILITY LEVELS AND POSITION LIMITS FOR LMEprecious CONTRACTS**

Summary

1. This notice consults Members and other interested parties on a proposal to introduce accountability levels and Position Limits for LMEprecious Contracts.

Defined Terms

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

Background

3. In advance of the implementation of Markets in Financial Instrument Directive II (MiFID II) and in order to promote a fair and orderly market and prevent abuse, the LME has determined that it is appropriate to introduce accountability levels and Position Limits for the LMEprecious Contracts.
4. Further information regarding the LME's proposal to introduce accountability levels and Position Limits for the LMEprecious Contracts, which shall be referred to as the "Proposal", is set out in the Appendix to this Notice.
5. It is intended that the accountability levels and Position Limits would be published to the market by notice, following feedback from the consultation (and subject to feedback received during the consultation). Following that date, the LME intends to consolidate all the relevant requirements relating to the Lending Rules, Position Limits and accountability levels in one notice, although the substance of the requirements will be unaffected – the consolidation will be for ease of reference only.



The Consultation

6. The LME has discussed the Proposal with the Special Committee, which is supportive of the Proposal. The LME now seeks the views of all Members and other interested parties in respect of the Proposal. Responses to the consultation should be made in writing to Market.Surveillance@lme.com no later than the close of business on 12 May 2017. Responses after this date will not be taken into consideration. Although the LME will consider comments and feedback submitted in any format, in order to assist the process of considering responses, it would be most helpful if respondents replied to the following numbered questions:

Q.1 – Do you agree with the implementation of accountability levels and Position Limits for LMEprecious Contracts? If not, please provide further details as to why.

Q.2 - Do you believe the proposed thresholds for accountability levels and Position Limits for LMEprecious Contracts are appropriate? If not, please provide further details as to why.

Q.3 – Do you agree with the LME’s definition of “spot” for the LMEprecious Contracts? If not, please provide further details as to why.

Q.4 – Are there any other matters which you believe the LME should take into account in relation to the Proposal?

7. The LME also welcomes any questions or requests for further clarification regarding this matter. Any such questions or requests should be directed to Mark Stevens (tel. no. +44 (0) 20 7113 8096), or by email at mark.stevens@lme.com

8. The LME may need to share the responses received with regulatory authorities or its legal advisors or other professional advisers, or as required by law. Apart from this, all responses will be treated in confidence.

9. The matters contained in this notice are subject to consultation and, following this consultation, and after due consideration, the LME may either implement:

- (a) The Proposal, a modified version of the Proposal or an alternative to the Proposal;
- (b) Any other measure(s); or



(c) No measures at all.

Implementation

10. Following the closing date of the consultation, the LME will advise Members and other interested parties as soon as is practically possible on the findings from this consultation. It will also advise on any future dates for the implementation of any requirements set out in this notice. It is intended that the accountability levels and Position Limits for LMEprecious Contracts will take effect from the date of launch of the LMEprecious Contracts.

Jeffrey Thurgood

Market Surveillance Manager

cc: Board Directors

Trading Committee

Ring Dealers Committee



Appendix

ACCOUNTABILITY LEVELS AND POSITION LIMITS FOR LMEprecious CONTRACTS

[This is the LME’s current Proposal – it may be subject to change following the feedback from the consultation]

Summary

1. This document sets out accountability levels and Position Limits for the LMEprecious Contracts.

Defined Terms

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

Background

3. The LME continuously undertakes surveillance on all positions as well as having Lending Rules and accountability levels to ensure orderliness and transparency for its LME Base Contracts. For LME Base Contracts, dominant positions subject to Lending Rules are based on LME live stocks. In addition, the LME’s Premium Contracts for aluminium have Position Limits based on deliverable supply in line with the MiFID II guidelines. As LMEprecious Contracts are based on unallocated gold and silver, neither option is feasible. In consequence, the LME is seeking the views of Members and other interested parties on the appropriate thresholds for both accountability levels and Position Limits for LMEprecious Contracts.

Accountability Levels

4. LMEprecious Contracts will be subject to accountability levels for single Prompt Dates and all Prompt Dates (referred to as the “Single Prompt Accountability Levels” and the “All Prompt Accountability Levels”). Exceeding the relevant accountability levels will allow the LME to request further information regarding the position of that account or linked accounts, and the LME may also give directions to the Member in respect of the position of that account or linked accounts.



Single Prompt Accountability Level

5. As with existing accountability levels, if a position exceeds the Single Prompt Accountability Level then the LME will require further information as to the nature and purpose of the position of that account (or, if appropriate, linked accounts as determined by the LME in its sole discretion), and may direct that Members cannot accept further orders that increase the position, or direct that the position be reduced to a level below the accountability level. The Member shall comply with such directions, or procure that its Client complies with such directions.

All Prompt Accountability Level

6. As with existing accountability levels, if a position exceeds the All Prompt Accountability Level then the LME will require further information as to the nature and purpose of the position of that account (or, if appropriate, linked accounts as determined by the LME in its sole discretion), and may direct that Members cannot accept further orders that increase the position, or direct that the position be reduced to a level below the accountability level. The Member shall comply with such directions, or procure that its Client complies with such directions.
7. The table sets out the proposed accountability levels for LMEprecious Contracts. These accountability levels will take effect from the date of launch of the LMEprecious Contracts or such other date as is specified by the LME in writing. Initially the accountability levels will be set at the same level for both Single Prompt and All Prompts, but the LME reserves the right to amend these levels, and any updates will be advised by the LME in writing.

Metal	Single Prompt Accountability Level (lots)	All Prompt Accountability Level (lots)
Gold	4,000	4,000
Silver	4,000	4,000

8. The accountability levels shall apply to any Member and/or Client trading LMEprecious Contracts. Members shall be responsible for compliance with the accountability levels and for ensuring compliance by their Client(s) with the accountability levels.



Position Limits

9. LMEprecious Contracts will be subject to Position Limits for spot and non-spot positions. Exceeding the relevant Position Limits will allow the LME to order the reduction or termination of the position.
10. The following table sets out the proposed Position Limits for the LMEprecious Contracts. These Position Limits will take effect from the date of launch of the LMEprecious Contracts or such other date as is specified by the LME in writing. No single entity, or two or more entities acting in concert, shall hold positions equating to more than the Position Limit set out in the table below, for each relevant Prompt Date. The Position Limits shall apply to any Member and/or Client trading an LMEprecious Contract. Members shall be responsible for compliance with the Position Limits and for ensuring compliance by the Client with the Position Limits.

Metal	Spot Position Limit (lots)	Non-Spot Position Limit (lots)
Gold	3,000	6,000
Silver	1,500	6,000

Spot Position Limit

11. For LMEprecious metals, “spot” is defined as expiries from the next listed expiry to the first monthly expiry (i.e. the relevant Daily Dates up to the first Monthly Date – M1). In relation to the spot Position Limit, the position will apply to the net position across these expiries.
12. The LME considers this an appropriate definition of “spot” given the nature of the LMEprecious Contract Prompt Date structure. Daily expiries up to and including the first monthly expiry will be more susceptible to potential market manipulation as they are closer to delivery. The LME does not consider basing Position Limits on TOM expiries (the first expiry at T+1) to be appropriate as potential market tightness may have already taken place before a position would be subject to the relevant Position Limit. In addition, the LME considers it prudent to include up to and including the first monthly expiry (i.e. M1) as this is in line with market consensus on the definition of delivery spot month and will provide protection to



market participants who only trade monthly LMEprecious Contracts rather than daily LMEprecious Contracts.

Non - Spot Position Limit

13. Non-spot Position Limits will apply to each individual expiry beyond those defined as “spot” i.e. the remaining Daily, Monthly Dates and the Quarterly Dates.

Reporting & Surveillance

14. Members who hold positions, or whose Client(s) hold positions, in excess of the accountability levels must report to the LME the rationale behind holding this position by email, to the following address: Market.Surveillance@lme.com. Members must have in place appropriate procedures to identify positions that are in excess of the accountability levels, such that they are able to meet the reporting requirement. However, for the avoidance of doubt, with regard to Client positions, Members are only required to report positions that they hold on behalf of Clients, and not those positions that Clients may hold with other Members. Notifications by Members to the LME are required to be received no later than the next Business Day following the accountability level having been exceeded.

15. Members are required to provide all relevant information relating to the position to the LME. The LME is aware that this may include commercially sensitive information and therefore the information will be held in confidence in accordance with the relevant provisions of Part 2 of the LME Rulebook.

16. Pursuant to Notice 09/231 : R004 dated 26 May 2009, Members must report to the LME all warrant and trading positions for all customer accounts and all house accounts as at the close of business each Business Day. This shall include position data for LMEprecious Contracts. The Market Surveillance department of the Exchange shall use this data to monitor the positions of all Members and Clients in LMEprecious Contracts on a daily basis. As with the publication of large position information and the Lending Rules, in calculating the total positions of two or more entities acting in concert for the purposes of the accountability levels and Position Limits, the LME shall aggregate the positions of a Client across all Members. Likewise the LME shall aggregate the positions of a Member or Client and such entity's related group companies unless the entity can demonstrate that the positions were independent. The LME will also aggregate



the positions of unconnected parties if the LME Market Surveillance department believes that there is a common purpose between such parties. In such cases the LME will inform the parties either directly or through the Members with whom they trade.

General

17. The attention of Members and their Clients is drawn to the relevant provisions of the LME Rulebook, including the sections relating to provision of information and obligations of Members in Part 2 and the sections in Part 3 relating to Position Limits.
18. Failure by a Member to comply with the accountability levels or Position Limits specified by the LME, or with a direction issued by the Exchange, shall constitute a breach of the LME Rules which may result in disciplinary action against the Member pursuant to Part 2 of the LME Rulebook. Equally, failure by a Member to ensure that its Client(s) observe the accountability levels and/or Position Limits, or comply with a direction issued by the Exchange, shall constitute a breach of the LME Rules which may result in disciplinary action against the Member.
19. The LME reserves the right to modify the accountability levels or Position Limits, or any other information set out in this Notice, from time to time by issuing an amending or replacement notice.

Questions

20. If you have questions regarding the accountability levels or Position Limits, please contact the Market Surveillance Department via email at Market.Surveillance@lme.com.