

LME Group Member & Vendor Townhall

Robin Martin, Head of Market Development

James Cressy, COO

10 September 2019



SETTING THE GLOBAL STANDARD



Agenda

Section	Title
1.	H1 review
2.	New products and initiatives
3.	Pre-trade transparency update
4.	Guest speaker: Paul Willis, Technical Specialist, FCA
5.	Brexit
5	Operational updates
6.	Technology roadmap

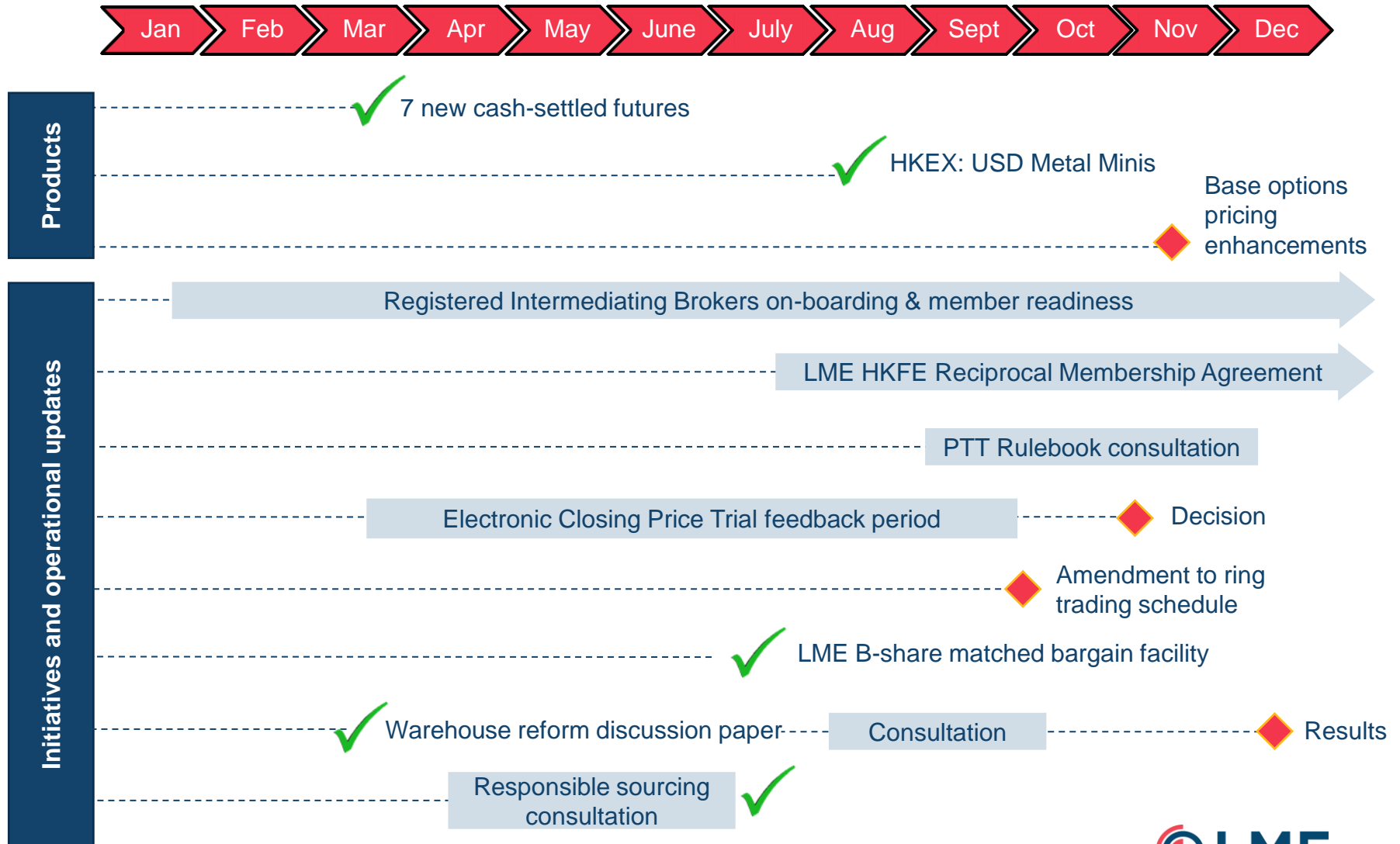
H1 review

Three key drivers for the LME



Key initiatives 2019

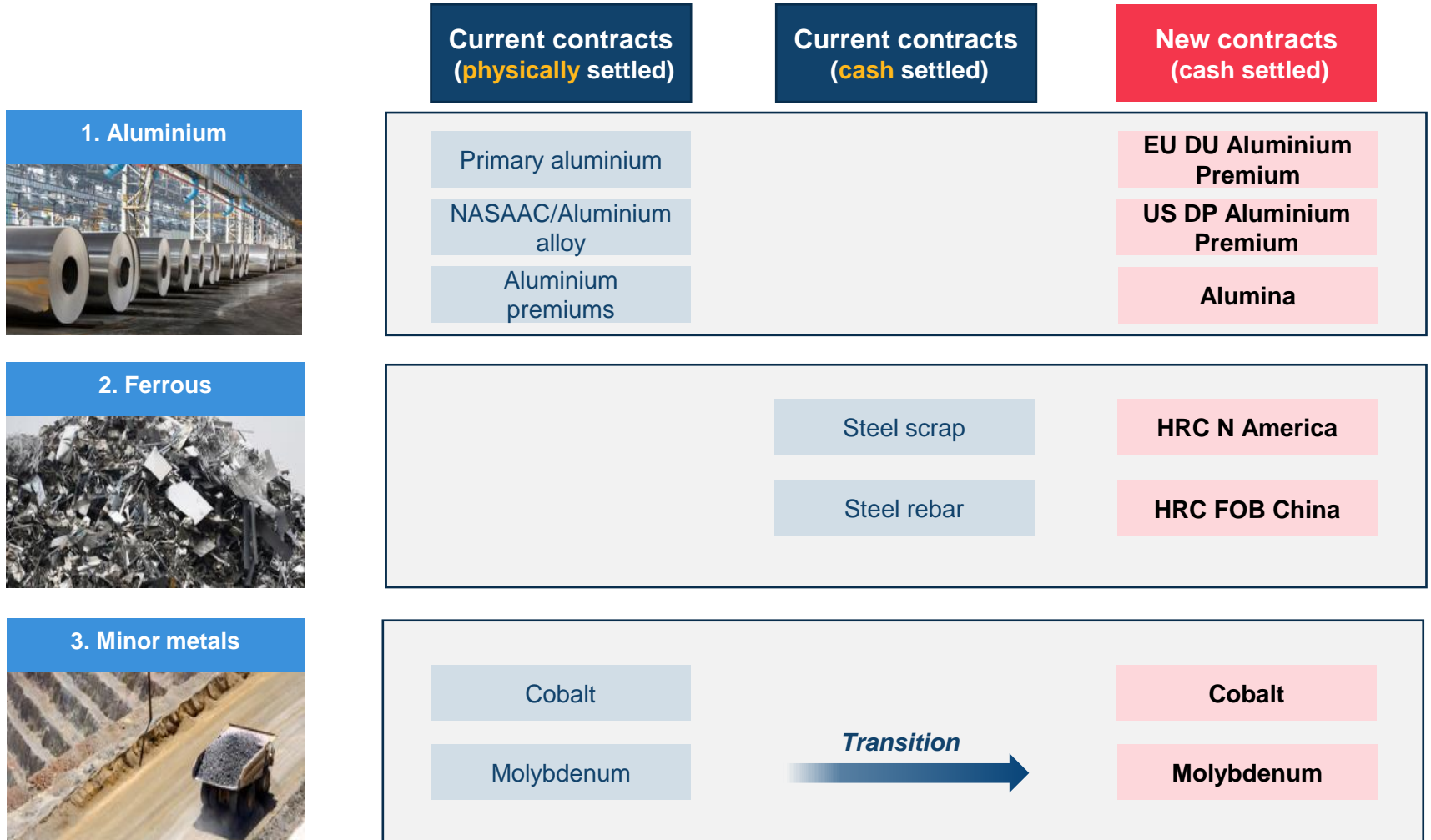
No major systems releases planned for the year



New products and initiatives

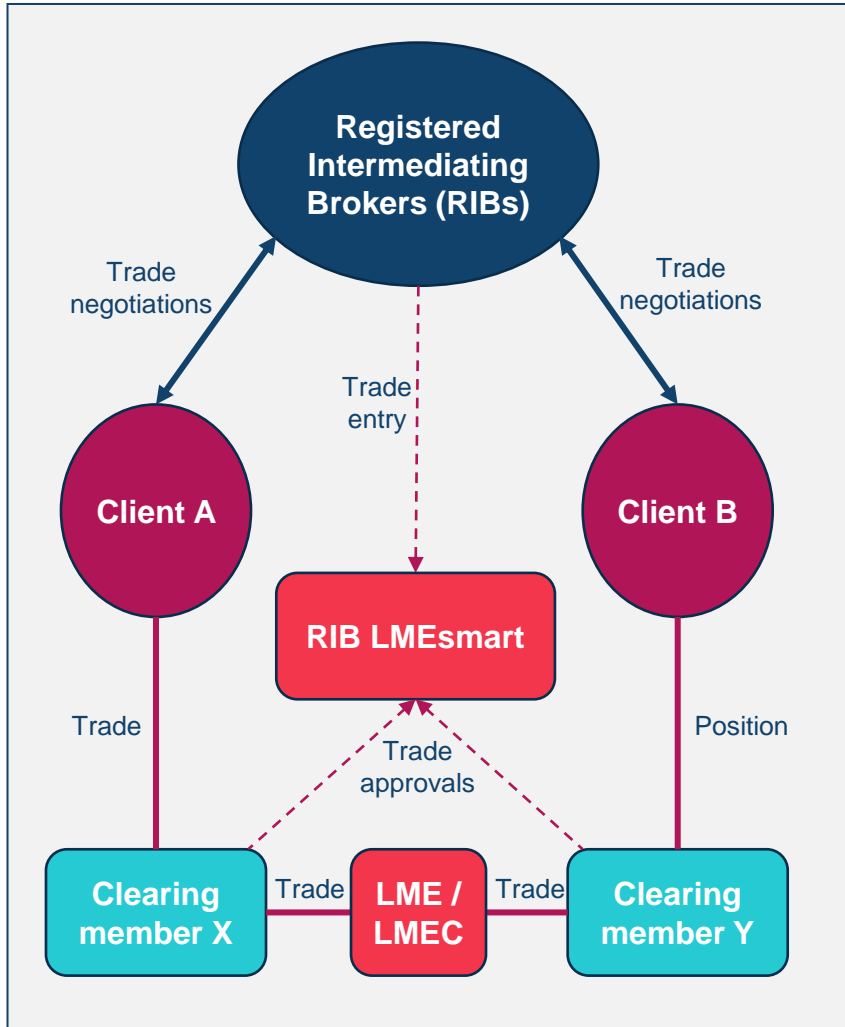
New products complement LME's existing offering

Seven new contracts launched in March across three product lines



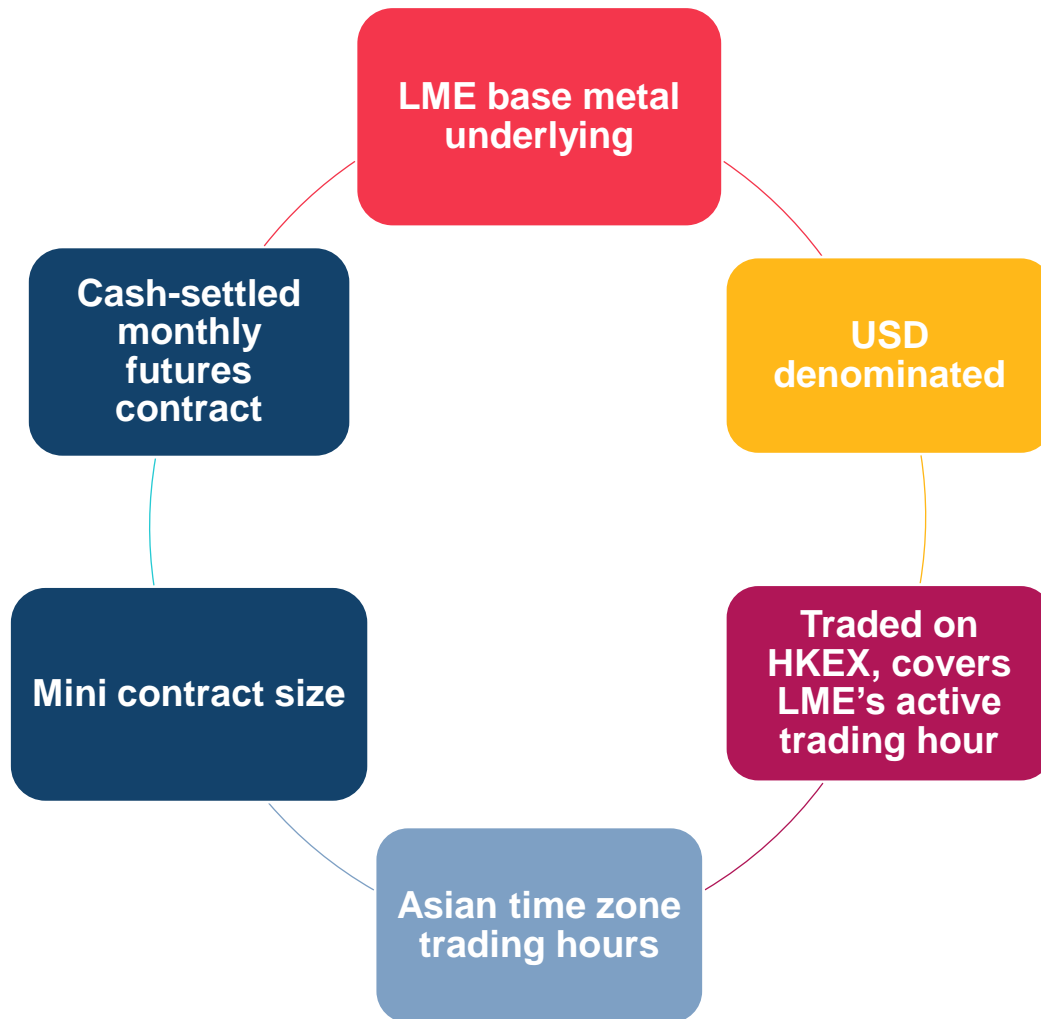
Registered Intermediating Brokers (RIBs)

8 RIBs now live, further applications pending



New products: HK \$USD Metal Minis

6 new monthly contracts launched 5 August on HKFE, referencing LME prices



- Complements LME market and provides global metal communities with opportunity to hedge risk
- 12 consecutive monthly futures contracts based on LME official settlement prices
- Smaller lot sizes increase trading convenience and flexibility
- HKEX extended trading hour of T+1 session (5.15pm-3am) to complement London trading hour
- Additional trading opportunity for traders who have exposure in USD-denominated base metals in Asian time zone

New products: HK \$USD Metal Minis

Contract	USD London Aluminum Mini	USD London Zinc Mini	USD London Copper Mini	USD London Lead Mini	USD London Nickel Mini	USD London Tin Mini
Contract Size	5 tonnes / contract				1 tonne / contract	
Trading / Settlement Currency	USD					
Trading Hours	9:00am to 4:30pm (day trading session) and 5:15pm to 3:00am the next morning (after-hours trading session)					
Trading hours on last trading day (LTD)	Day trading session: 9:00am – 4:30pm; After-hours trading session: 5:15pm-8:00pm (British Summer Time) / 9:00pm (outside British Summer Time)	Day trading session: 9:00am – 4:30pm; After-hours trading session: 5:15pm-7:55pm (British Summer Time) / 8:55pm (outside British Summer Time)	Day trading session: 9:00am – 4:30pm; After-hours trading session: 5:15pm-7:35pm (British Summer Time) / 8:35pm (outside British Summer Time)	Day trading session: 9:00am – 4:30pm; After-hours trading session: 5:15pm-7:50pm (British Summer Time) / 8:50pm (outside British Summer Time)	Day trading session: 9:00am – 4:30pm; After-hours trading session: 5:15pm-8:05pm (British Summer Time) / 9:05pm (outside British Summer Time)	Day trading session: 9:00am – 4:30pm; After-hours trading session: 5:15pm-7:45pm (British Summer Time) / 8:45pm (outside British Summer Time)
Minimum Fluctuation	USD 0.50 / tonne				USD 1 / tonne	
Last Trading Day (LTD)	The LTD determined by the LME for the Aluminum/Zin/Copper/Lead/Nickel/Tin Futures Contract, which is two London business days before the third Wednesday of the Spot Month If it is not a HK Business Day, the LTD shall be the immediately preceding HK Business Day					
Final Settlement Price (FSP)	Shall be determined by the Clearing House, and shall be the Official Settlement Price determined and published by The London Metal Exchange two London Business Days before the third Wednesday of the Spot Month					
Settlement Method	Cash-settled					
Trading fee	USD 0.50 per contract per side					
Settlement fee	USD 0.20 per lot					
Position Limits (USD and CNH combined)	25,000	25,000	50,000	25,000	50,000	15,000
Jan 18' – Dec 18' High / Low US\$ / tonne	(L) 1856.50 (H) 2540.50	(L) 2283.50 (H) 3606.00	(L) 5759.00 (H) 7330.50	(L) 1885.00 (H) 2703.75	(L) 10605 (H) 15688	(L) 18234 (H) 22104

LME HKFE Reciprocal Membership Agreement

Offering broader access to products on each Exchange

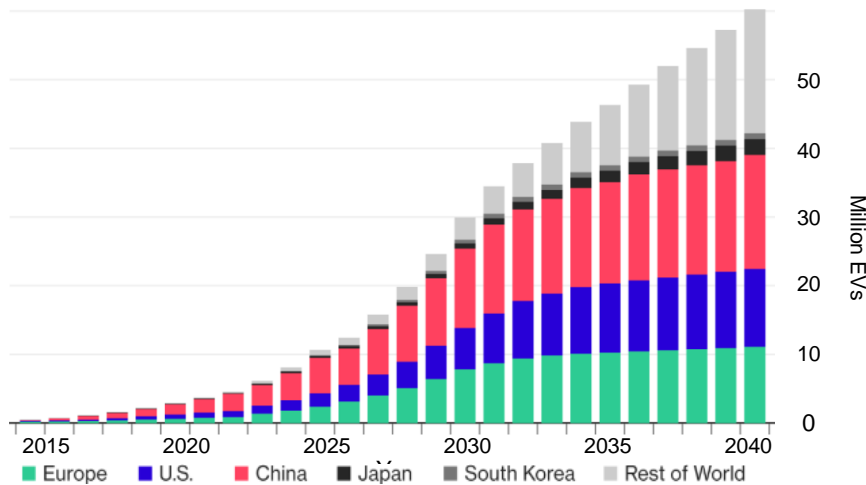


- Reciprocal membership for applicants who already hold a membership at either one of the Exchanges
- LME and HKFE plan to waive respective first year's annual subscription and application fees
- Effective 29 July 2019 – 29 July 2022

New products pipeline: Lithium

LME working with key industry players on future launch of a lithium contract

Electric Vehicle sales to reach 10m by 2025



- EVs are a growth opportunity and market participants seek transparent and fair prices
- Lithium price is volatile: peaking in Nov 2017 at US\$25.8/kg, now ~US\$11/kg
- LME setting up a Lithium Committee, working with the market to develop robust price and appropriate risk management tools

Our chosen pricing partner



- Established presence in the EV space
- IOSCO compliant and auditable lithium pricing methodologies
- Strong brand and 130-year track record in price observation and generation
- Global presence and reach, robust presence in Asia
- CIF China, Korea and Japan prices
- Extensive experience in pricing

Pre-trade transparency update

Introduction to pre-trade transparency (PTT)

The LME's original PTT solution was rejected by ESMA in December 2018. The LME has been working on a solution with market participants

MiFID II and MiFIR introduced substantially expanded requirements for pre trade transparency in order to minimise "dark pools"

LMEselect and the Ring and are considered to be compliant with the PTT requirements

In December 2018, ESMA rejected LME's original PTT solution for the inter office market

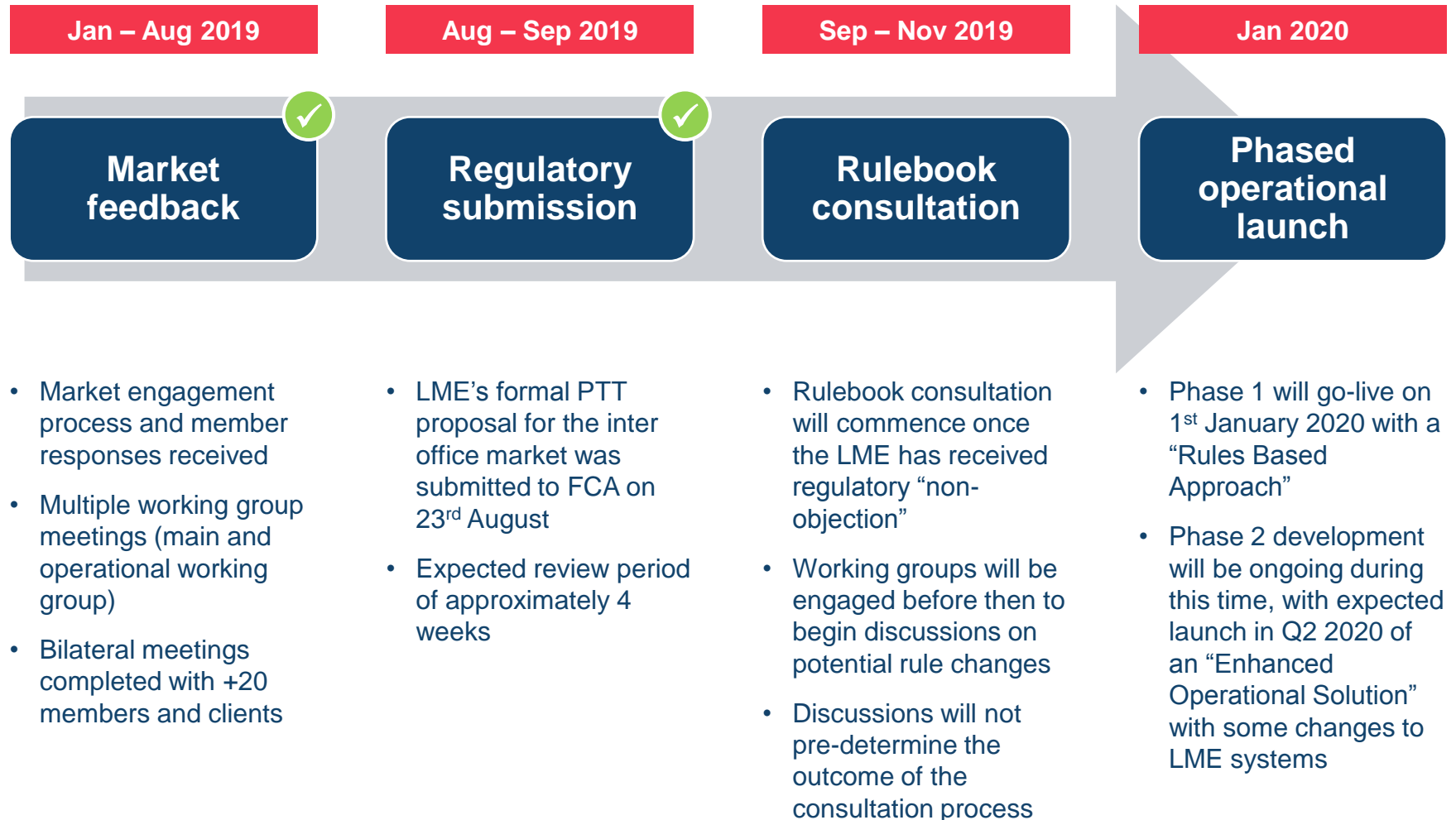
A new compliant solution providing genuine PTT for the inter office market must be implemented by 1 January 2020

Regulatory requirement as per MiFIR Article 8 (1) for non-equity instruments

"Market operators and investment firms operating a trading venue shall make public current bid and offer prices and the depth of trading interests at those prices which are advertised through their systems for bonds, and structured finance products, emission allowances and derivatives traded on a trading venue. That requirement shall also apply to actionable indication of interests. Market operators and investment firms operating a trading venue shall make that information available to the public on a continuous basis during normal trading hours."

Evolution of the PTT solution

The LME has recently submitted its PTT solution proposal to the FCA



Impacted transactions

LME will apply for all applicable waivers and exemptions, but still estimates that approximately 5% of total volume and 20% of all trades are impacted

Transaction type	Which transactions are impacted?
Inter office transactions	<ul style="list-style-type: none">• Only inter office transactions are impacted by the new PTT requirements
Non-hedging transactions	<ul style="list-style-type: none">• Hedging transactions for non-financial counterparties are exempt from PTT
Liquid contracts	<ul style="list-style-type: none">• Only liquid contracts must be made PTT
Smaller transactions sizes	<ul style="list-style-type: none">• Only smaller transaction sizes fall under the PTT requirements

Execution methodologies

LME has proposed two different PTT compliant execution methodologies to the FCA, to allow Members and customers to choose their preferred approach

Customer Order approach

Step	Description
1	Customer contacts Member for a quote which requires PTT
2	Member shows indicative price (non-actionable by definition)
3	Member informs customer of any adjustments that would be added to the customer contract to reflect embedded commission, mark-up or credit fees (unless previously disclosed to customer)
4	Should the customer wish to do the trade, the Member will first create the customer order in LMEselect (at the “clean” price)
5	The Member must then wait a minimum of 5 seconds (during this time other market participants can aggress the client order)
6	The Member may then either [1] aggress the customer order on LMEselect, thus creating the “Member PTT LMEselect cross” trade; or [2] the customer can withdraw the order and Member can trade with the customer at the “all-in” price in the inter-office market

PTT required

Market Quoting approach

Step	Description
1	Customer contacts Member for a quote which requires PTT
2	Member shows firm quote to the market via LMEselect (actionable, same size and price that will be quoted to client)
3	Immediately after “market” quote, Member shows a firm quote to the customer. Member can inform customer of any adjustments that would be added to the customer contract to reflect commission, mark-up, or credit fees. The customer can immediately trade at price
4	Customer is not obliged to trade but if it does then the Member books the client cross in LMEsmart at the “all-in” price (i.e. including any explicit adjustments)
5a	Member is required to leave their market quote in LMEselect for as long as it remains firm to the client, with a minimum of 5 seconds or until the price is aggressed by a third party, if less
5b	Member market quote may be aggressed by a 3 rd party in LMEselect

Guest speaker:
Paul Willis, Technical Specialist, FCA

Brexit

Brexit planning priorities

CCP recognition – LME Clear

- LMEC will be considered equivalent and recognised as a third country CCP as at the date of UK withdrawal
- Recognition and equivalence conditional on a no-deal Brexit and will last until **March 2020**
- Recognition under EMIR 2.2 expected to follow; unclear when the regime comes into force and how LMEC's categorisation

Trading venue equivalence – LME

- The LME will become a third country trading venue under MiFIR
- Without TV equivalence LME contracts will become OTC for EEA counterparties which could introduce additional regulatory obligations for certain market participants
- Expectation for UK to leave without TV equivalence in place

Licences for access – LME

- Each member state has its own requirements for third country trading venues wishing to provide access to its services
- Licence/dispensation received from Germany and the Netherlands respectively
- France, Ireland and Cyprus do not have specific requirements in place and therefore continued access is permitted

Member planning

- Recent guidance from ECB encouraging UK firms to ensure they are well prepared
- LME Brexit webpage is up-to-date
- Any concerns or questions contact LME on Brexit@lme.com or your usual relationship manager

Operational updates

Electronic closing price trial update

Feedback period extended to 30 September 2019

Key points:

- The electronic Nickel Closing Price trial ran between 17 March and 17 June 2019
- During the trial, the 3-month Nickel Closing Price was determined exclusively by reference to an LMEselect pricing window via the VWAP functionality
- No formal feedback was received within the initial deadline for feedback. As a result, the feedback period is extended to 30 September 2019
- The LME has created a presentation to help market participants with feedback attached to Notice 19/256
- Feedback is particularly important: market.engagement@lme.com
- Full details are outlined in Notice 19/256

Amendment to ring trading schedule

To take effect from 23 September 2019

- The LME is adopting a recommendation from the Ring Dealers Committee to amend the schedule for Ring trading in the second session and second Kerb
- Amendment to be made following the successful three month trial for Zinc to be extended from 5 to 10 minutes in the second Kerb

Metal	Trading Period
Lead	15.00 – 15.05
Zinc	15.05 – 15.10
Copper	15.10 – 15.15
Aluminium	15.15 – 15.20
Tin	15.20 – 15.25
Nickel	15.25 – 15.30
Alloy/NASAAC	15.30 – 15.35
Interval	15.35 – 15.50
Zinc (8 min / 2 min)	15.50 – 16.00
Tin (8 min / 2 min)	16.00 – 16.10
Lead (8 min / 2 min)	16.10 – 16.20
Cobalt/Molybdenum (4 min / 1 min)	16.20 – 16.25
Aluminium (8 min / 2 min)	16.25 – 16.35
Premiums/Alloy/NASAAC (4 min / 1 min)	16.35 – 16.40
Copper ((8 min / 2 min)	16.40 – 16.50
Nickel (8 min / 2 min)	16.50 – 17.00

- Full details are outlined in Notice 19/255

Matched bargain facility for B Shares

In operation since 8 July 2019

LME HOLDINGS LIMITED B SHARES TRADING

Company	Last Trade Price	Quantity	Date	Market Cap.
LME HOLDINGS LIMITED Cancel Email Updates	£62.00	2,500	17-Jul-19	£ m*

[Get a Quote](#) [Graph](#) [News](#) [Forum](#)

You may send us an order by completing the form below. PLEASE NOTE PRICES ARE NOW IN POUNDS.

Buy Sell Quantity Price (£)

FCA regulations mean we can only accept orders via email or on the telephone. Your order will not appear in the market immediately, but all orders are entered in strict submission time order. We monitor emails only during market hours (8am - 5pm UK time)

Quantity	Buy Price (£)	Last Trade Price	Sell Price (£)	Quantity
		£62.00 (2,500) 17/07/2019	£62.00	25,000 15/08/2019

- To facilitate the buying and selling of B Shares via Britdaq.com
- Interested parties must register at Britdaq.com
- Standard KYC requirements
- Once approved, ability to view and place indications of interest
- When matched buyer/seller contact details provided to each party for completion of the transaction off the Britdaq platform

Technology roadmap

Technology roadmap – key features

New Trading Platform

Entirely new architecture, leveraging HKEX technology

Entirely new front-end GUI for Members and Clients

Market Data

Rationalised market data offering, retiring legacy systems

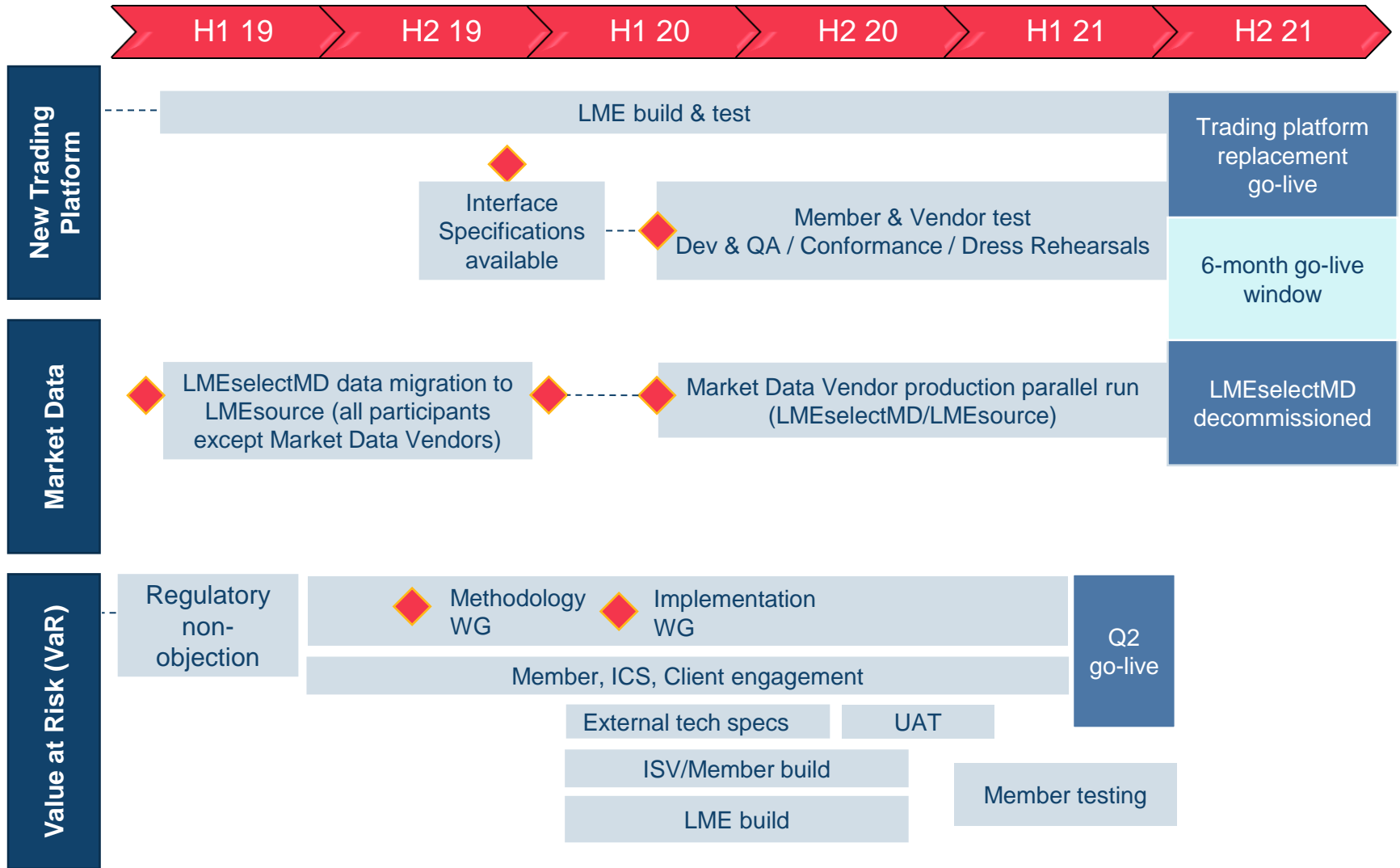
VaR

VaR-based margin methodology is custom designed for LME markets

Technology roadmap – what's next?

New Trading Platform	<p>Entirely new architecture, leveraging HKEX technology</p> <p>Entirely new front-end GUI for Members and Clients</p>	<ul style="list-style-type: none">• Update Forum 25 September• Interface Specifications to be released by Q1 2020• Contact us at newtradingplatform@lme.com• Currently in the final stages of selecting a vendor to develop a new Trading GUI
Market Data	<p>Rationalised market data offering, retiring legacy systems</p>	<ul style="list-style-type: none">• All participants excluding Market Data Vendors to migrate to LMEsource from LMEselectMD by end of Jan 2020 for Electronic Market Data
VaR	<p>VaR-based margin methodology is custom designed for LME markets</p>	<ul style="list-style-type: none">• Provide details of methodology and tech' specs for ISV and development teams• Provide details of test plans for ISVs, Members and Clients• Support Member engagement with their clients

Timeline for major projects 2019-2021



Happy Birthday LME Clear!

Thank you to you all for your continuous support of LME Clear over the past five years...



Q & A

Contacts

Relationship Management

The role of our relationship management team has been expanded to cover both LME and LME Clear businesses

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