

To: All Members and other interested parties

Ref: 20/067

Classification: Trading General

Date: 17 March 2020

Subject: **LME RING TRADING UPDATE – COVID-19**

Summary

1. This Notice informs the market of the LME's planning regarding Ring trading in light of the continued spread of COVID-19.

Background

2. The LME is conscious that the nature of the trading Ring gives rise to specific considerations in respect of the potential for COVID-19 transmission.
3. On Monday 16 March 2020, the UK Government issued revised advice to “*stop non-essential contact with others*” and “*to start working from home where [people] possibly can*”.
4. Given virus transmission in London, the Government has additionally requested that “*Londoners now pay special attention to what [the Government is] saying about avoiding non-essential contact, and to take particularly seriously the advice about working from home, and avoiding confined spaces such as pubs and restaurants*”.
5. Given this advice, the LME believes it important to adapt its trading approach to heed Government advice, and play its role in minimising potential for disease transmission.

Next steps

6. Starting on Wednesday 18 March 2020, the LME Ring will move to its backup location in Chelmsford, in order to minimise the transit of Ring-based personnel through London.



7. If current trends continue, the LME anticipates that it will temporarily move to fully electronic pricing on Monday 23 March 2020 (with prices being calculated on the basis of electronic market activity on LMEselect). Ring trading would then be suspended until conditions normalise in respect of COVID-19, at which point Ring trading will resume. During this period, trading will be conducted via LMEselect and the inter-office market.
8. Given the dynamic nature of the current situation, the LME reserves the right to implement fully electronic pricing at an earlier or later date than set out above. The market will be informed by Notice of the precise date.
9. As further set out below, the move to electronic settlement pricing will require certain changes to market behaviour. It is hence vital that Members work closely with the LME prior to the transition to ensure market readiness.
10. In respect of non-Ring-based LME staff, all non-business-critical staff have been encouraged to work from home. In respect of business-critical staff, the LME (like many financial institutions) has adopted a “split-team” approach, in an attempt to reduce the potential for cross-contamination.
11. During the period of electronic pricing, the LME understands that certain of its Category 1 Members may wish to continue using their dealing offices in Finsbury Square and Chelmsford, in order to effectuate their own split-team arrangements. Subject to logistics, this will be allowed, provided the Member determines that the staff concerned could not work from home, and interaction between teams is minimised.

Electronic settlement

12. From a process standpoint, the LME is well-prepared for electronic settlement. The 2019 nickel closing price trial demonstrated the ability of the LME’s systems to electronically calculate the 3-month price via a Volume Weighted Average Price (“VWAP”) methodology. While the full forward curve has not historically been produced electronically, the LME has procedures in place to enable this, and has been running these procedures in parallel with Ring closing prices for the past week, in order to maximise readiness.
13. However, the market should note that electronic settlement – given the complexities of the LME date structure – may generate a differently priced forward curve than would have been achieved on the Ring, and lead to a different set of market practices. These may in turn have a significant impact on how LME market participants conduct their business (and, in particular, the ability of Members to guarantee closing price orders to clients). Therefore, the



short-term market impact of a switch to electronic pricing should not be underestimated.

14. The full LME business continuity policy regarding the potential disruption or unavailability of the Ring was last updated on 5 December 2019 ([Notice 19/396](#)). In particular, the policy sets out the methodology for electronic settlement.
15. The key points of this policy are as follows (please refer to the policy for full details):
 - (a) In the event that the Ring is not available, the Official Price and Closing Price for each base Metal Future and each Aluminium Premium Contract will still be established on LMEselect at prescribed times.
 - (b) The Official Price and Closing Prices will be determined using a VWAP from transactions on LMEselect over a 5 minute pricing period where appropriate, for: (i) Cash and 3 months for Metal Futures; and (ii) month 1 for Aluminium Premium Contracts. All other Prompt Dates shall be determined by the Quotations Committee using their expert judgement.
 - (c) For the Official Prices, the Pricing Period will be the time that would have constituted the last 5 minutes of the second Ring of the first session as set out on the LME's website from time to time. For the Closing Prices, the Pricing Period will be the time that would have constituted the last 5 minutes of the kerb in the second session as set out on the LME's website
 - (d) When the Official Prices have been established for each Metal Future and each Aluminium Premium Contract, provisional prices will be published to LMEselect users via an LMEselect market message as soon as is practically possible after the close of the relevant Pricing Period for that metal. LMEselect Member users will then have 5 minutes to raise objections to the provisional prices.
 - (e) When the Closing Prices have been established for each Metal Future and each Aluminium Premium Contract, provisional prices will be placed on the LME SFTP server for Category 1, Category 2 and Category 4 Members to view. The objection procedure will then apply until 5.30 pm.
16. The LME will host discussions with Category 1 Members on Tuesday 17 March, to further refine these procedures. A teleconference will be held with Category 1 and Category 2 Members on Wednesday 18 March, to ensure that all Members are fully involved in this important discussion. The LME's Relationship Management team will be in contact with Members with details of this call. If appropriate, revisions to the procedures will be published by Notice.



Further information

17. For more information about the LME's general coronavirus preparations, please visit: <https://www.lme.com/en-GB/About/Corporate-information/Business-continuity/COVID-19-preparedness>

Matthew Chamberlain
CEO

cc: Board directors
All Committees