



31 January 2024

FIA Response to LME consultation on the Proposals in respect of Daily Price Limits

Submitted electronically at consultation@lme.com

To whom this may concern,

On behalf of FIA¹ and its members, we express our appreciation for the opportunity to comment on the consultation on LME's proposals in respect of Daily Price Limits² (the "Consultation"). We generally support the LME's efforts to establish a transparent framework for market suspension based on consecutive Daily Price Limits (DPLs). However, we have several concerns and suggestions regarding the current proposal, informed by best practices outlined in the FIA document³ and feedback from our members.

We would like to note that our comments refer only to Section A of the Consultation and do not cover the other sections B,C and D. As general feedback, we would recommend the LME to improve their consultation paper's readability to foster broader market participant engagement. We believe this is a reason why there was no or limited appetite to respond to the other sections of the consultation.

As highlighted in our best practice paper, transparency is a fundamental pillar in Financial Market Infrastructures, and we recommend the LME to provide an updated Daily Price Limits ("DPL") paper clearly outlining the impact on trading and clearing as well as general impact to market and liquidity risk. The consultation does not specifically highlight the impact on LME Clear operation, even though clearing is meaningfully impacted as market suspension implies a clearing suspension. We strongly advise the LME to clarify this point as the market risk still remains during such suspension. A

¹ FIA is the leading global trade organization for the futures, options and centrally cleared derivatives markets, with offices in Brussels, London, Singapore and Washington, D.C. FIA's membership includes clearing firms, exchanges, clearinghouses, trading firms and commodities specialists from more than 48 countries as well as technology vendors, lawyers and other professionals serving the industry. FIA's mission is to support open, transparent, and competitive markets, protect and enhance the integrity of the financial system, and promote high standards of professional conduct. As the principal members of derivatives clearinghouses worldwide, FIA's member firms play a critical role in the reduction of systemic risk in global financial markets.

² As notified under the [LME Notice reference 23/235](#).

³ [FIA best practices for exchange volatility control mechanisms \(September 2023\)](#)

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better understanding from market participants of the constraints relating to such suspension would enable participants to better manage that risk.

Additionally, we recommend that LME ensures swift trades confirmation such that clients are immediately informed that their trades have effectively been accepted as cleared trades and constitute client trades. Upon confirmation, such trades should not be subject to cancellation, and we believe that the LME should limit the retroactive use of trade cancellations irrespective of the legality of the powers of the LME to proceed.

Furthermore, we have concerns about the proposal potentially triggering suspensions based on "reasonable suspicion" of disorderly market, implying that a suspension may happen without a disorderly market. This significantly expands LME's discretion and requires further clarification. We also recommend clear guidelines on LME's ability to cancel trades in the absence of a confirmed disorderly market.

Along with transparency, communication is also a key pillar for markets to function efficiently and effectively, therefore we strongly recommend issuing public broadcasting after the second Qualifying Event to warn participants about a potential market suspension the following day. We also strongly recommend providing access to relevant procedures, rules, and documents.

Finally, we believe our response and recommendations would generally enhance the proposal and align with FIA best practice on Exchange Volatility Control Mechanisms. We also understood that a 3 to 6 month implementation timeframe aligns with industry feedback and allows for necessary adaptations by market participants. And we strongly advise the LME to consider potential legal, regulatory, and operational impacts, particularly regarding OTC transactions and pre-suspension trades.

You will find responses on the appendix below to the Consultation questions and we welcome the opportunity to discuss with you any of the comments and recommendations should you require additional information.

Respectfully submitted,

Jacqueline Mesa
FIA Chief Operating Officer and Senior Vice President of Global Policy

Appendix – Response to the consultation’s questions

Q1 - Do you agree with the proposal to implement a transparent framework for when the market will be halted based on consecutive limit up/down days?

We generally agree with the proposal. However, we would seek clarifications regarding transactions in the three days before the market is halted (as mentioned in Notices 22/064, 22/067). Specifically, would these transactions be cancelled and would OTC trading be allowed during the halt or suspension period. Additionally, we would welcome further clarification on how these matters will be conveyed to trading parties and Clearing members.

Q2 - Do you agree with the proposed criteria for triggering a halt, including the definition of a Qualifying Event and a Suspension Event?

We support this proposal but encourage alignment with industry standards and encourage increased transparency towards participants.

Q3 - If the LME was to implement the proposal broadly as set out in the consultation, do you have any views on the appropriate timeline to go-live with the framework?

We recommend a 3 to 6 month timeframe for the market to adapt and implement necessary processes and controls.

Q4 - Are there any legal, regulatory, operational, or other impacts that you consider the LME should be aware of, and consider in its decisions regarding the proposals?

We believe there might be potential impacts, especially if OTC transactions or trades conducted before LME's decision to halt trading are allowed to be cancelled. This could significantly impact end-users and Clearing Members' appetite. For instance, if trades can be cancelled, this would result in unsuccessful hedging strategies, resulting in unmanaged exposures and potential losses.