

LME and LME Clear London Update Forum

24 April 2017



SETTING THE GLOBAL STANDARD



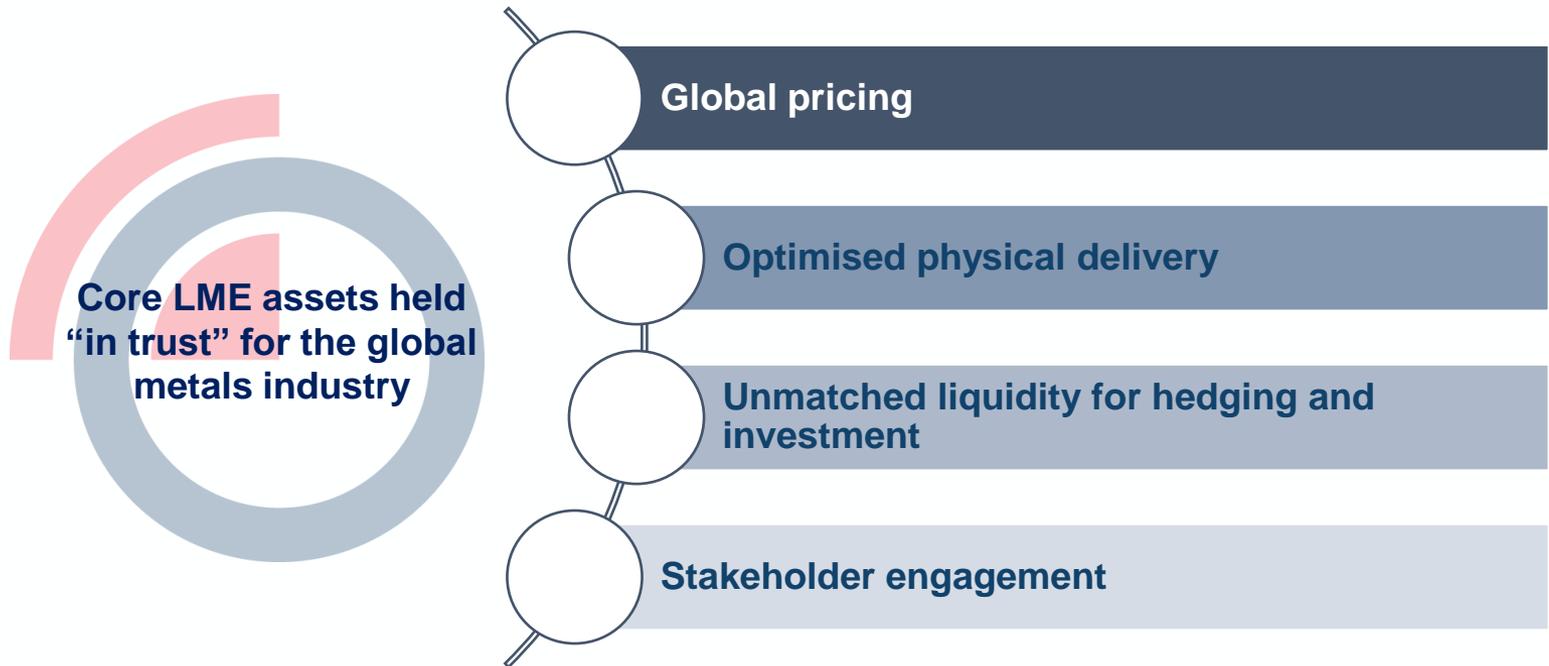
Agenda

LME update	Matthew Chamberlain
LME Clear update	Adrian Farnham
LME / LME Clear Market Development update	James Proudlock
Delivery update	Andrew Dodsworth

LME update

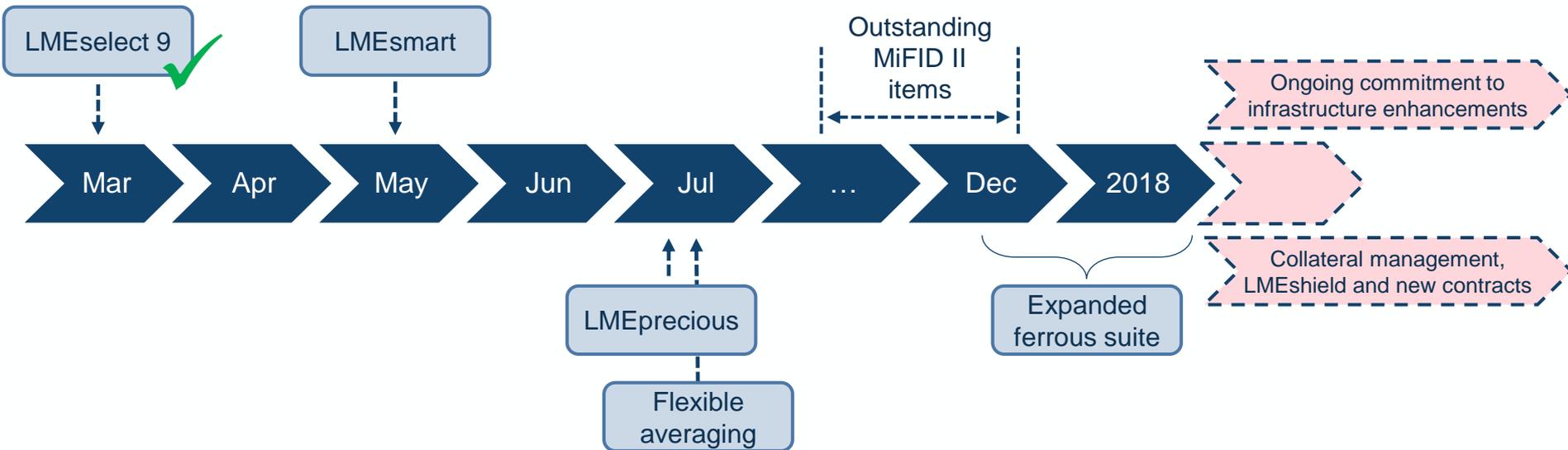
Matthew Chamberlain

The LME's leadership position



A clear 2017 strategy and beyond

Infrastructure refresh



Business initiatives

Key principles of the Discussion Paper

1. Protect those features which are core to the LME's market and its physical user base

Any proposed reform must be viewed through the lens of the LME's core mission, namely to provide pricing, risk management and terminal market services to the global physical industry

2. Where market structure can be standardised without violating principle (1), this should be considered in order to enhance attractiveness

In general, non-physical participants prefer a market structure based on the more "standardised" model adopted by most of the LME's peers. While the LME, as stated in principle (1), wishes to protect and maintain all the features of the physical market which are important for its core mission, it simultaneously does not believe in differentiation purely for the sake thereof

3. Maximise participation and "democratise" the LME

As a general principle, the LME believes that the interests of a market (in terms of price discovery, execution liquidity and the financial interests of the LME itself) are served by broader participation. Furthermore, the LME seeks a "democratised" market, where market structure does not have the effect of driving business to a small number of members or clients

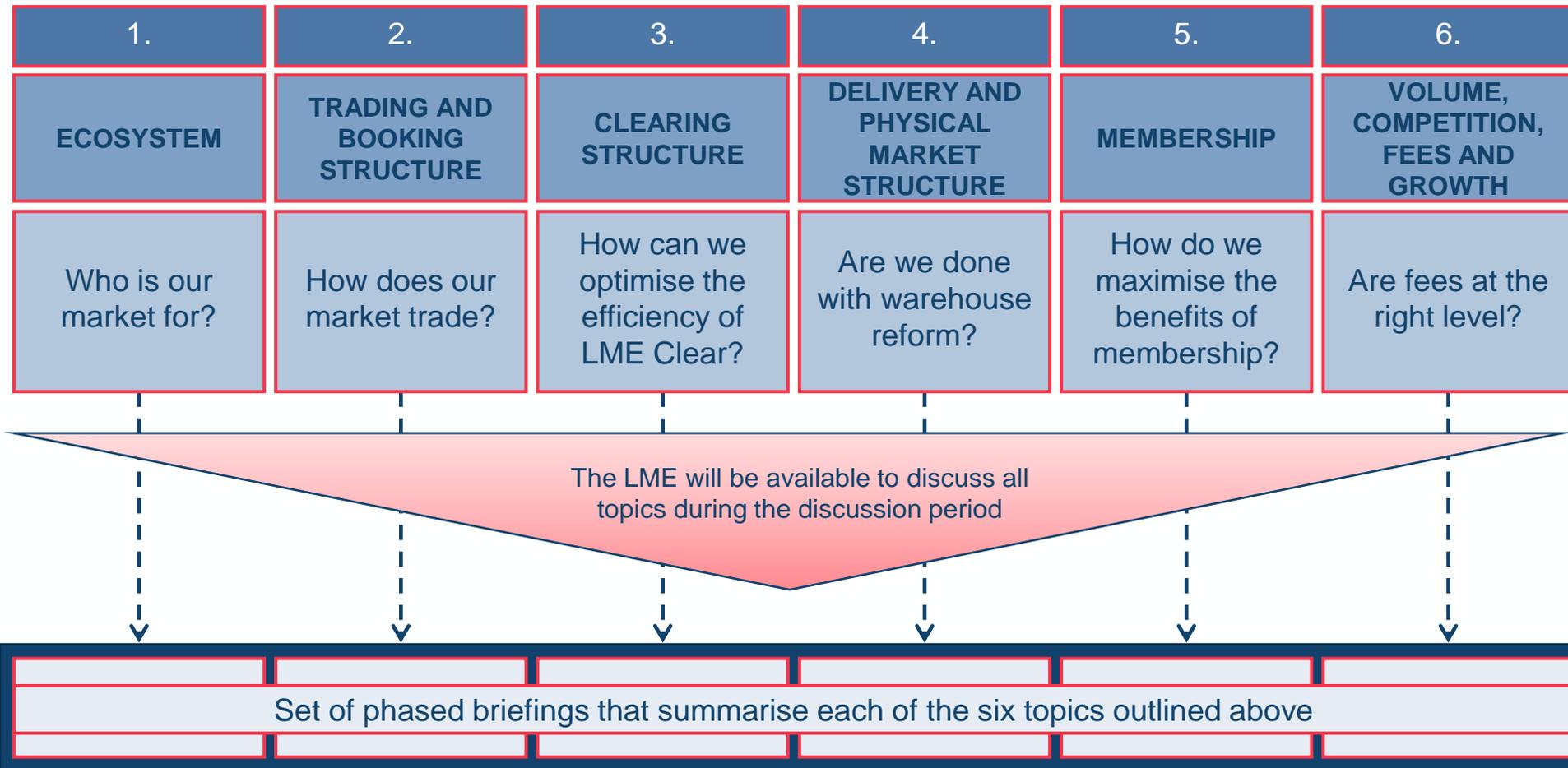
4. Seek growth opportunities

The LME views growth opportunities as falling into two categories; (i) truly new offerings and (ii) opportunities arising from the potential evolution of market structure

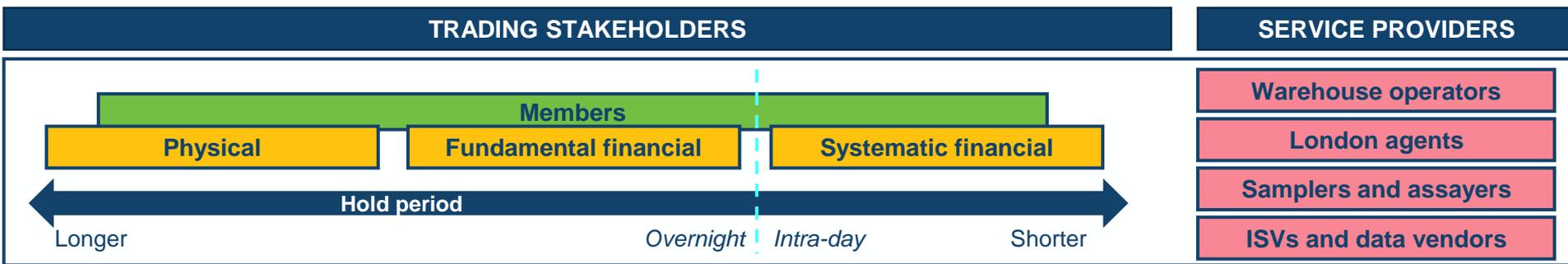
5. Cater for forthcoming challenges, particularly those arising from regulation

The LME views a key element of its role as helping its members and customers address market change; to the extent that market structure can be adapted to cater for this, and again without violating principle (1), the LME will strongly consider such development

Discussion Paper topics and engagement schedule

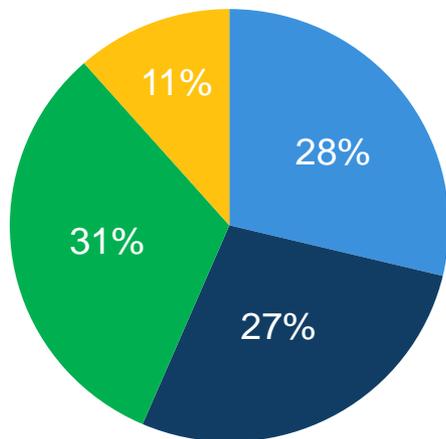


Who is our market for?

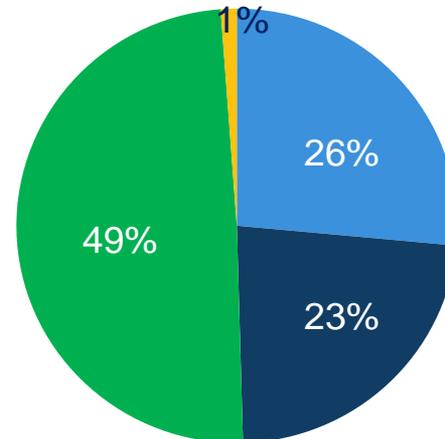


LME market activity by stakeholder group

Volume



Open interest



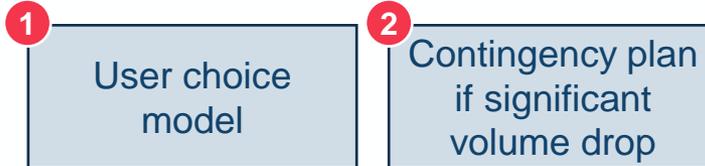
Example: monthly liquidity

Clear principles

- Commitment to daily pricing and the date structure
- Only question is the primary forward date on which electronic trading should take place

LME's vision

- Managed transition approach



Potential implementation routes

Provision of liquidity on third Wednesday electronic dates

Implied pricing services

Separate financial contract

Separate dealer-to-client platform

Views of the market strongly welcomed

Discussion Paper timeline



LME Clear update

Adrian Farnham

Update on LME Clear initiatives

Mercury Release 4

- On target for 22 May 2017
- Open Offer – MIFID II STP
- Enhance averaging after Precious

Precious

- Separate Default Fund
- Client Clearing (T2) booking model
- Standard NCM/GCM structure
- Daily & monthly futures

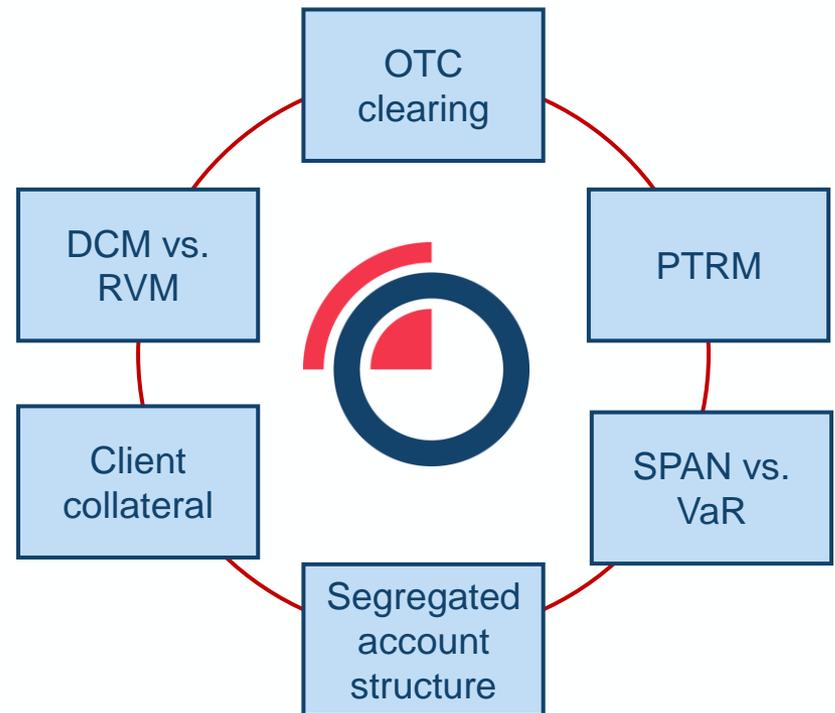
Relationship Management

- Combined LME & LME Clear Relationship Management team
- James Cressy is Head of Relationship Management

Discussion Paper – clearing structure

Key member and client feedback: how could we improve clearing and settlement?

- Regulatory Capital costs are high to support commodities business. EMIR Risk mitigation changes are starting to happen: VM exchange, 10 day IM etc.
- Cash flow demands / credit extension remains key for clients
- Some market practices on LME are non standard and more expensive to support



Discussion Paper – clearing structure

Regulatory Capital / NSFR

- Basel III driving up capital costs – commodities are expensive
- NSFR impacting the cost of posting collateral
- EMIR Risk Mitigation changes for OTC bilateral clearing are being introduced over time for FCs and NFCs+. Daily VM exchange, segregated IM gross on a 10 day basis etc.

Regulatory Capital

- VM methodology: move to RVM reduces large unrealised exposures → reduces capital charges. Credit impact? Timing? Implementation?
- Client collateral posting: Warrants and non-cash? Legal structure? Client role?
- OTC clearing solution: Contract type? Cash settled? Legal documentation? EFRP type solution?

Discussion Paper – clearing structure

CASHFLOW / CREDIT EXTENSION

IM METHODOLOGY

We support many dates but our IM methodology is largely a standard futures model



We get more efficient results for a VAR model because of portfolio effects. Timing? Implementation? House only?

ACCOUNT STRUCTURE

We do not offer a Gross OSA



We have to build a Gross OSA for MIFID II. Extend to direct clients and therefore potentially enable 1 day MPOR?

SETTLEMENT PROCESS

Large intra-day exposures to LMEC due to linked settlement model



Move to a true DVP process? Potential then for intra-day settlements?

Discussion Paper – clearing structure

Making clearing more efficient

- LME market processes are different – cannot adopt standard tools and costs are higher
- No real role for GCMs to support NCMS in LME market

- Client clearing model: at the moment we require all client business to be booked on T4 model. Should we introduce an optional T2 model for client-executed business?
- Affiliate account structure: at the moment all affiliate business is booked as client business. Should we have a separate affiliate account?
- GCM / NCM model support: we can introduce additional Pre-Trade Risk Management controls on positions and / or IM?

Market Development update

James Proudlock

LMEprecious update

Key market participants present on day 1

A subset of the partner banks will provide price streaming

Clearing Partner Banks

- Goldman Sachs International
- ICBC Standard Bank Plc
- Morgan Stanley & Co. International plc
- Natixis
- Société Générale (London Branch)

Additional Clearing Members*

- BOCI Global Commodities (UK) Limited
- Commerzbank AG
- Macquarie Bank Limited
- MAREX Financial Limited
- Société Générale International Limited

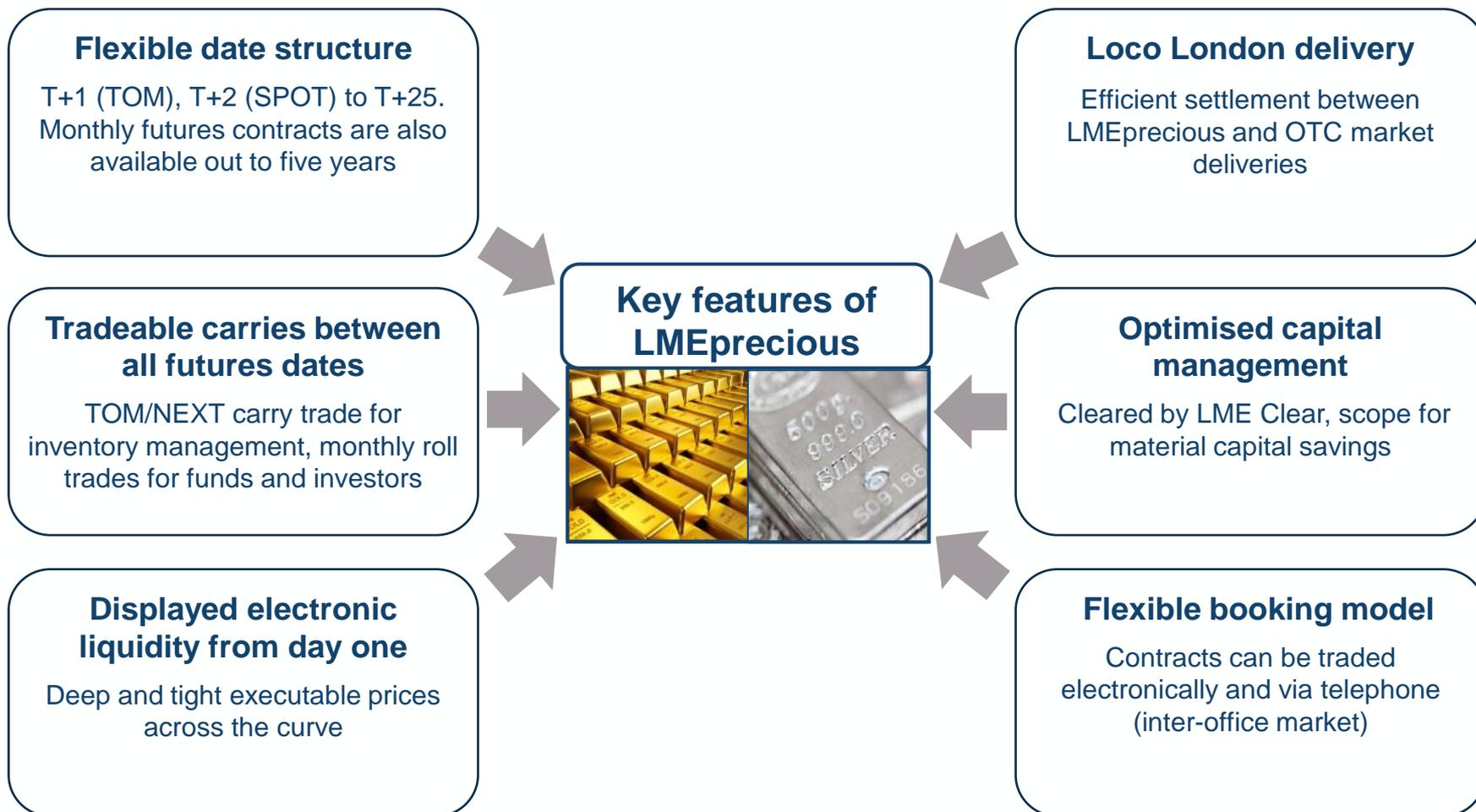
Other Partners

- World Gold Council
- OSTC

- Further Clearing Members considering sign up prior to launch
- Numerous other precious market participants considering LMEprecious non-clearing membership

LMEprecious – launching on 10 July 2017

The LME and a group of leading industry participants are launching an innovative new suite of exchange-traded, loco London precious metals products

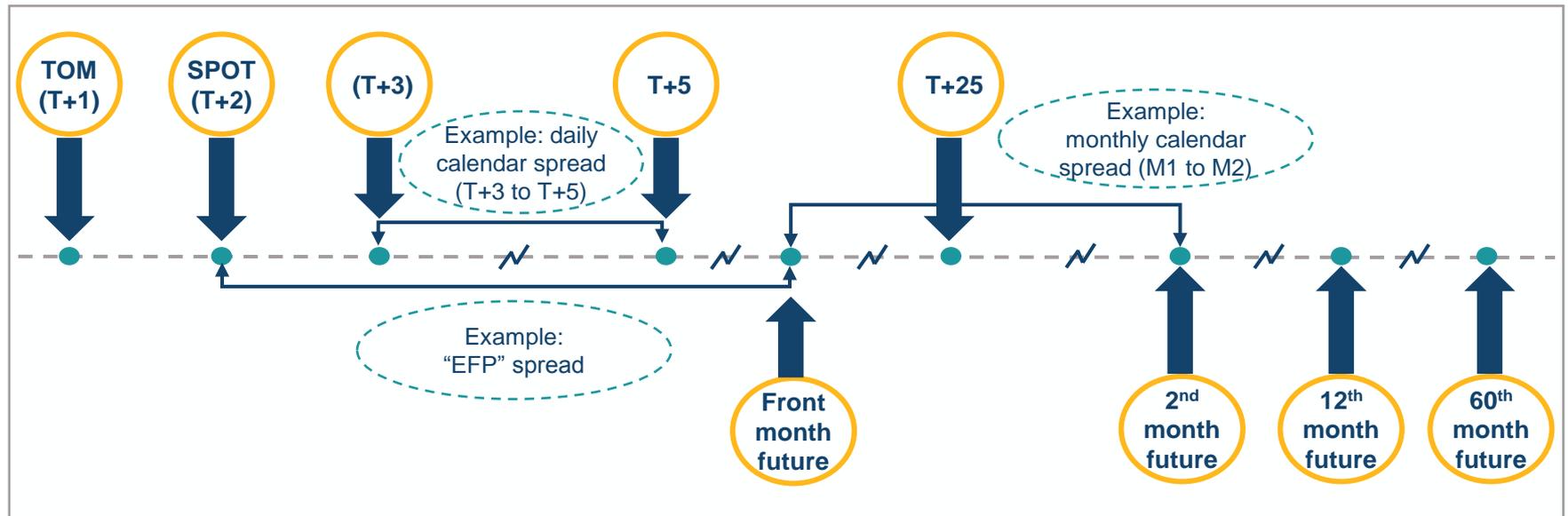
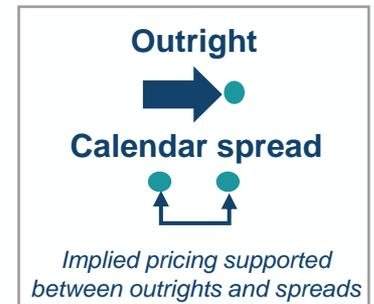


LMEprecious – hybrid OTC and futures construct

The LME's rolling prompt date mechanism enables a hybrid structure, bringing together the worlds of OTC trading and futures

LMEprecious prompt dates

- TOM, SPOT and daily futures out to T+25
- Monthly futures out to 24 calendar months, and then quarterly out to 60 calendar months forward
- Offers single open interest space with margining and risk netting efficiencies, a shared liquidity pool and continuous pricing curve



LME precious product specifications

	LME Gold		LME Silver	
Delivery	Unallocated Loco London Gold		Unallocated Loco London Silver	
Lot size	100 fine troy ounces		5,000 fine troy ounces	
Price quotation	US Dollars and cents per fine troy ounce		US Dollars and cents per fine troy ounce	
Trading venues	LMEselect	Inter-office market	LMEselect	Inter-office market
Contract period	T+1 to T+3, M1 to M24/25, Quarterly to 5 years	T+1 to T+25, M1 to M24/25, Quarterly to 5 years	T+1 to T+3, M1 to M24/25, Quarterly to 5 years	T+1 to T+25, M1 to M24/25, Quarterly to 5 years
Trading hours	01:00 – 20:00 London time	24 hours	01:00 – 20:00 London time	24 hours
Minimum price fluctuation (tick size)	\$0.100 per fine troy ounce	\$0.001 per fine troy ounce	\$0.00500 per fine troy ounce	\$0.00001 per fine troy ounce
(Carries)	\$0.001 per fine troy ounce	\$0.001 per fine troy ounce	\$0.00001 per fine troy ounce	\$0.00001 per fine troy ounce
Daily settlement price	VWAP of traded prices during the settlement window and/or other relevant data		VWAP of traded prices during the settlement window and/or other relevant data	
Settlement procedure	Unallocated Precious Metal deliveries to LME Clear's nominated Precious Metal Clearer		Unallocated Precious Metal deliveries to LME Clear's nominated Precious Metal Clearer	

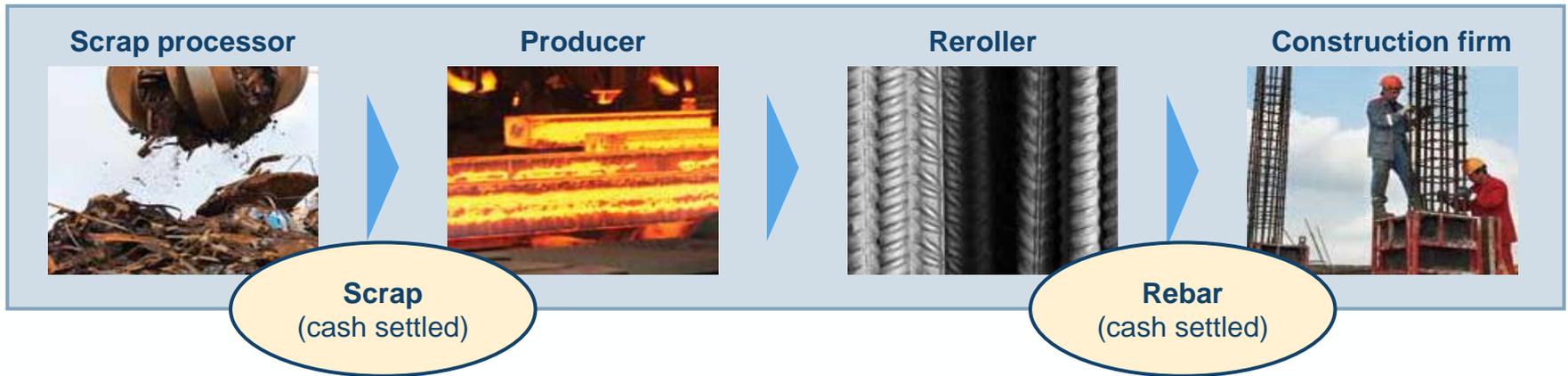
Future roadmap

Gold	Addition of new precious metals
Silver	Platinum and palladium futures, with same date structure as above
Platinum	Options for all four metals
Palladium	Expiration on Last Trading Day of relevant underlying Monthly Future

LME Ferrous update

LME's new ferrous suite

New scrap and rebar futures provide comprehensive hedging solutions for the Long Value Chain



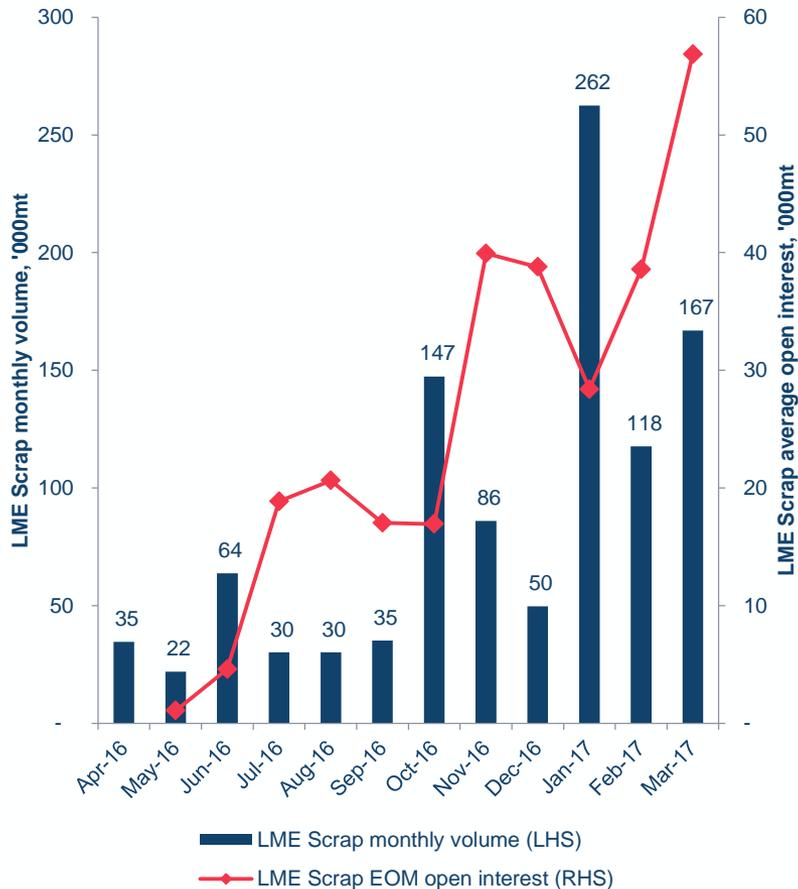
Scrap

Rebar

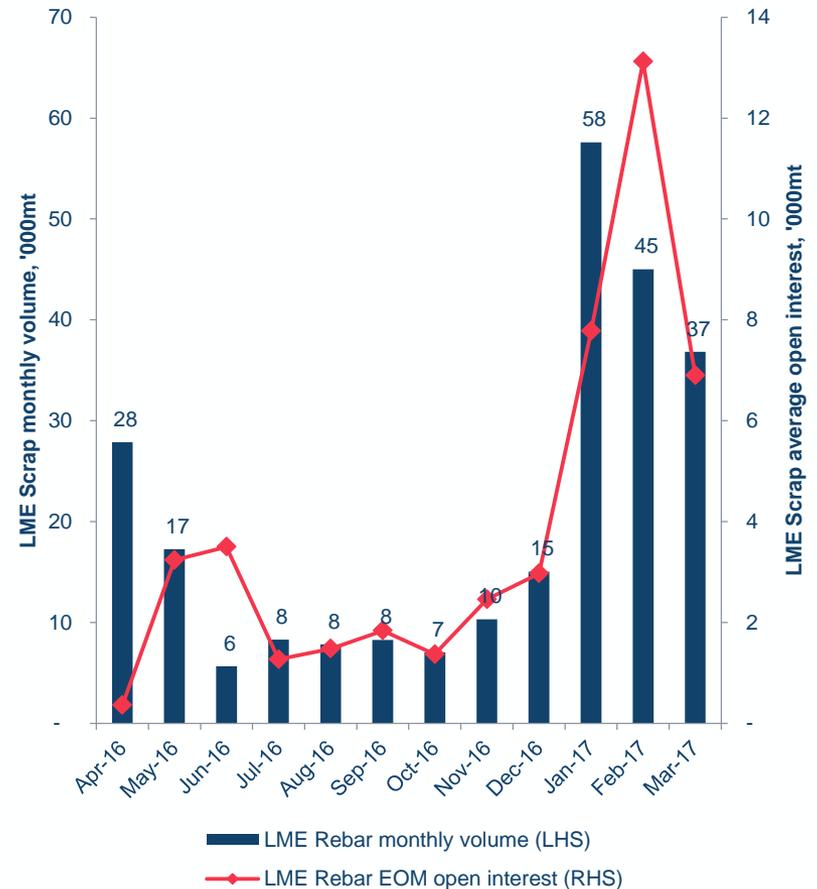
Underlying index base	TSI Turkish Imports HMS #1&2 80:20, CFR Iskenderun Port	Platts Rebar, FOB Turkey Port
Lot size	10 metric tonnes	
Contract months	Monthly futures contracts going out to 15 months	
Price quotation	US Dollar per metric tonne	
Trading venues	Electronic and telephone	

In Q1 2017 over ½ million tonnes of scrap were traded, more than in the whole of 2016

LME Steel Scrap monthly traded volumes, Apr-16 to Mar-17 ('000 mt)



LME Steel Rebar monthly traded volumes, Apr-16 to Mar-17 ('000 mt)



Enhanced averaging solutions

Enhancements to LME averaging solutions

Flexible hedging with all the benefits of clearing and exchange trading

A

What are we doing?

We are introducing 2nd business day prompt dates from four to 15 months for lead and tin and four to 24 months for all other base metals.

We will also introduce a trading and clearing fee holiday for MAFs.

B

Why is it happening?

In response to member demand the enhancement is designed to enable MAF and futures pairs trading further out than 3 months.

Incoming regulation may force more business onto exchange.

Using LME contracts for your averaging business means capital savings, margin offsets, clearing protection and less worrying about compliance.

While existing MAFs and TAPOs address some needs of the physical market, we intend to enhance our offering for more types of averaging.

C

How can they be used?

Trading MAFs and LME futures together, you can achieve the effect of a physically settled future at the monthly average settlement price.

Since MAFs are settled monthly on the 2nd business day, such a pairs trade is currently only possible out to 3 months.

Soon, this type of trade will be possible further out than 3 months – and thanks to the fee holiday at no more than the price of a regular future.

D

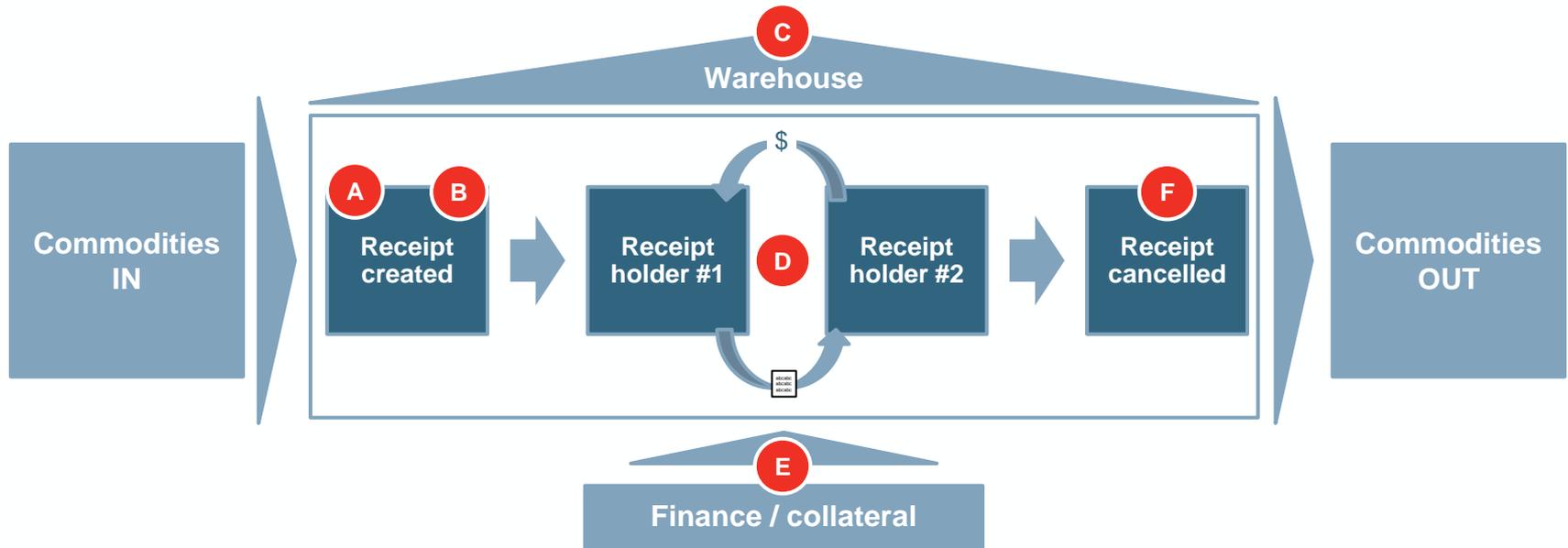
When is it happening?

The 2nd business day prompts will go live two weeks after the LMEprecious launch.

The fee holiday will initially run from go-live until the end of 2017, at which point it will be reviewed for extension.

LMEshield update

LMEshield – enhanced receipting solution for off-warrant markets



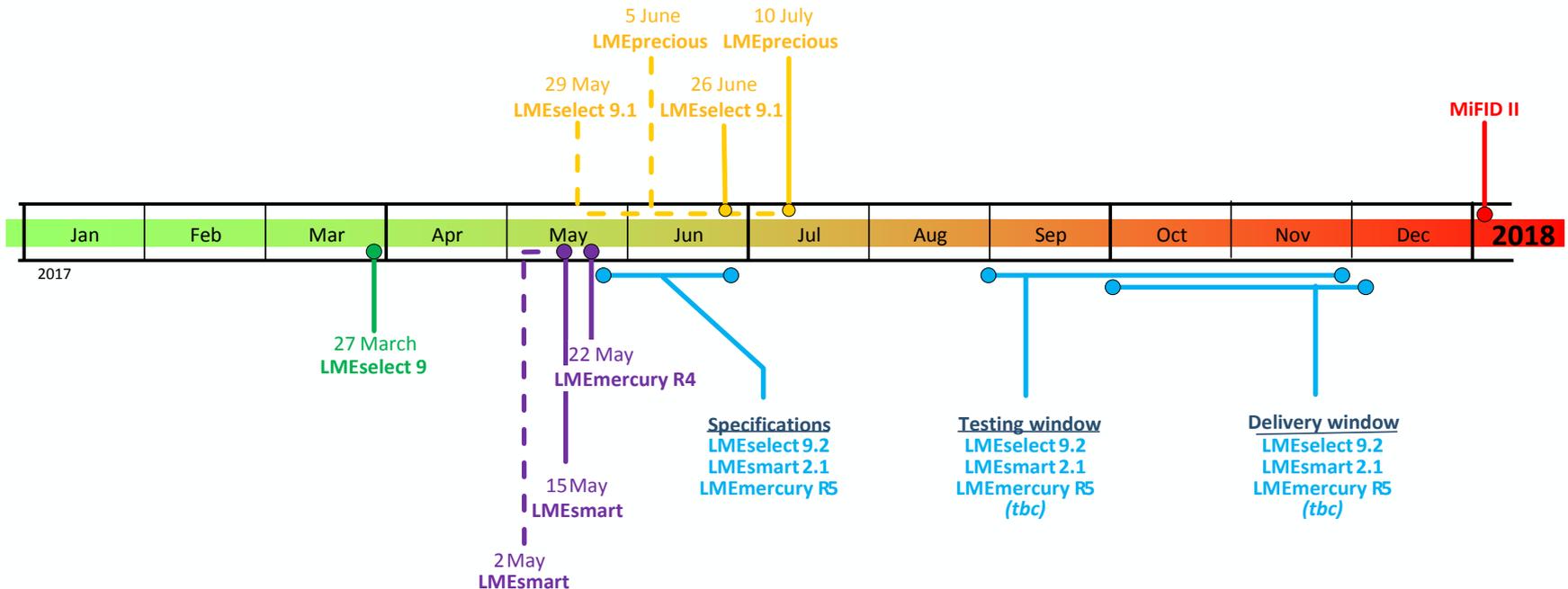
- A** Receipt creation by approved warehouses, with attached supporting documents
- B** Receipts securely printed and immobilised in depository, record held on central register
- C** All participating warehouse facilities subject to approval and inspection
- D** Secure electronic transfer of ownership between approved participants
- E** Clarity regarding financing agreement status, with clearly identified liability for rent
- F** Encrypted codes issued to ensure safe release of commodity from warehouse

Delivery update

Andrew Dodsworth

Systems implementation timeline

- 2017 delivery programme driven largely by MiFID II requirements
- 1H releases provide foundations, giving early visibility of order-entry requirements
- 2H releases deliver final MiFID II functionality (e.g. trade/transaction reporting, ISIN provision)
- To ensure complete member and vendor readiness LMEsmart go-live moved to 15 May. LMEselect 9.1 (LMEprecious) test window extended to 26 June



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