

To: All members and other interested parties

Ref: 22/051

Classification: Trading

Date: 07 March 2022

Subject: **IMPLEMENTATION OF A BACKWARDATION LIMIT AND DELIVERY DEFERRAL MECHANISM AND AMENDMENT TO EXISTING COPPER MEASURES**

Summary

1. The LME have been monitoring the impact on the LME market of the situation in Russia and the Ukraine, as well as the recent low-stock environment observed in various LME base metals. With immediate effect, the LME (acting through the Special Committee) has determined that it is appropriate in the circumstances to take the following two actions in respect of the physically settled base metal contracts **Aluminium, Aluminium Alloy, Cobalt, Lead, NASAAC, Nickel, Tin and Zinc**: (i) imposing a limit on the backwardation for tom-next contracts; (ii) introducing a deferred delivery mechanism for certain contracts. Additionally, the LME (acting through the Special Committee) has decided to amend the existing measures in **Copper** (introduced via Notice 21/202 on 19 October 2021, which shall be withdrawn and replaced by this Notice), removing the suspension of level lending and amending the existing backwardation limit and deferral mechanism such that they are now in line with the backwardation limit and deferral mechanism imposed by this Notice on the other physically settled base metals. These measures will take immediate effect and be reviewed as appropriate by the Special Committee.

Background

2. The Special Committee has been monitoring the LME market and the effect of the Russia and Ukraine situation, as well as the impact of existing low stock levels on trading for the nearby Prompt Dates. The measures set out below are intended to maintain market orderliness, whilst ensuring liquidity continues to be made available in nearby carries should the evolving situation lead to further physical market tightness.

Defined Terms

3. Defined terms used in this Notice shall have the meaning ascribed to them in the LME Rulebook or the Rules and Procedures of LME Clear, as applicable, unless otherwise defined in this Notice.

Special Committee Actions

4. After taking account of all of the relevant factors and having consulted with LME Clear, the Special Committee has resolved as follows:

Backwardation limit

- (a) Members and their Clients are prohibited from placing orders in tom-next carries for Aluminium, Aluminium Alloy, Cobalt, Copper, Lead, NASAAC, Nickel, Tin and Zinc on any LME Execution Venue at a price in excess of 1% of the relevant metal's previous day's Cash Official Price. Should a trade be executed at a price greater than this, the relevant Members will be instructed to book a



reversal and correction through LMEsmart to adjust the trade so that the price is in line with the backwardation limit¹.

Deferred delivery – Prompt Date minus 1 day

- (b) As a last resort, those with short positions in Aluminium, Aluminium Alloy, Cobalt, Copper, Lead, NASAAC, Nickel, Tin and Zinc falling prompt [9 March 2022], and on subsequent Prompt Dates until further notice, who are unable to fulfil their Delivery Obligations and/or unable to borrow metal at a backwardation of no more than 1% of the relevant metal's previous day's Cash Official Price, may have their delivery deferred by the Exchange. This will be facilitated by instructions issued by the LME in relation to the manual booking of a tom-next carry against longs selected by the Exchange at a price of 1% of the relevant metal's previous day's Cash Official Price. Those with long positions for prompt on those days who are subject to deferred delivery will need to book a tom-next carry against the respective shorts selected by the Exchange at a price of 1% of the relevant metal's previous day's Cash Official Price. In both instances the Exchange will provide instructions to the relevant Members with regards to the trade bookings required.
5. These changes are intended to ensure market orderliness and continued liquidity, and the Exchange believes they represent a balanced approach in respect of all market participants.

Deferred delivery – operational requirements

6. All Clearing Members with short positions in Aluminium, Aluminium Alloy, Cobalt, Copper, Lead, NASAAC, Nickel, Tin or Zinc for prompt next Business Day who are **not able to fulfil their Delivery Obligation** must email imecooperations@lme.com and posttradeoperations@lme.com by 14.00 the day before the Prompt Date to confirm that they would like to defer their Delivery Obligation.
7. All affected Members with long/short positions included in the deferred delivery will be contacted by Post-Trade Operations and instructed to book a tom-next carry in LMEsmart based on the details provided.
8. Those required to book tom-next carry trades in LMEsmart must do so by 15.30 the day before Prompt Date to ensure deliveries in LMEsword are reflected correctly at close of business.
9. In the event the entry of a tom-next carry is required to effect a delivery deferral then Members must ensure that the identity of the counterparty is only disclosed internally to those personnel who, from an operational perspective, require such information in order to action the deferred delivery.

Ongoing monitoring of the market

10. The decision of the Special Committee has been taken in accordance with its powers under Regulation 17 and Regulation 18.3 of Part 3 of the LME Rulebook. The Special Committee has taken the action it considers necessary in order to maintain continued market orderliness and avoid the development of an undesirable situation. The LME will continue to keep the market under review and, in conjunction with the Special Committee and LME Clear, will review the actions taken within this Notice, reverting back to the previous requirements as soon as it is considered prudent to do so.

¹ The provisions of Regulation 12.3 and Regulation 12.4A of Part 3 of the LME Rulebook shall apply to such adjustment, so that, without limitation, any information that relates to the identity of a counterparty must only be disclosed to those personnel who, from an operational perspective, require such information in order to action the price adjustment.



Questions

11. Members who have questions regarding the process for the deferral of a Delivery Obligation (set out in paragraphs 4(b) and 6 above should contact Imecoperations@Ime.com.
12. Market participants with any questions or comments regarding the measures set out within points (a), (c), (d) or (e) of paragraph 4 above should email market.surveillance@Ime.com.

Peter Mason

Head of Market Surveillance

cc: Board directors
Special Committee