
AFME and FIA response to the LME Consultation on Enhancing Liquidity

13 June 2025

The Association for Financial Markets in Europe (AFME) and the Futures Industry Association (FIA) (together, the Associations) welcome the opportunity to respond to the London Metal Exchange's (LME) Consultation on Enhancing Liquidity. We appreciate the LME's efforts to improve transparency and market structure, and we recognise the importance of initiatives aimed at supporting robust and orderly trading. However, AFME and FIA members have expressed concerns regarding several proposals outlined in the LME's September 2024 *White Paper on Enhancing Liquidity* and the April 2025 *Update on Enhancing Liquidity*.

In particular, the Associations are concerned about the compliance of the proposed Block-like Rules for OTC lookalike contracts with applicable competition laws, as outlined in AFME's previous letter of 7 March 2025.

AFME is also reviewing other proposals set out in the April 2025 Update, specifically the OTC Booking Fee Proposal and the OTC Transparency Proposal, which appear to raise similarly significant competition law concerns.

While these issues fall outside the scope of the current consultation questions, AFME members consider them important and intend to follow up with a separate letter setting out our legal concerns in more detail.

In addition, individual members may wish to submit separate bilateral responses to raise comments beyond the scope of this joint submission.

Q.1: Do you agree with the LME's approach to introducing an MVT Rule in the inter-office market? If not, please explain why.

The Associations do not agree with the introduction of Minimum Volume Thresholds (MVTs) for three key reasons:

1. The introduction of MVTs, alongside the crossing requirement or other exception detailed in Question 2, results in worse outcomes for clients as members are unable to internalise risk or utilise discretion in how to manage risk. See further details in our response to Question 2.
2. Market participants will incur significant costs in technological builds to update their orderbook workflow, including to utilise the crossing methods. This will be particularly challenging for Members when Trade-at-Settlement (TAS) contracts are introduced for Market-on-Close (MOC) orders as they may currently internally net off MOC orders.
3. Liquidity Concerns:

Whilst certain 3-month (3M) contracts may have the requisite liquidity to introduce MVTs, it is not appropriate to introduce MVTs for monthly outright contracts, as well as spreads between 3M and certain monthly contracts, as they do not trade in sufficient volume both in the inter-office market and the orderbook today. See details of volumes traded in Copper 3M vs Copper Jul25, Aug25, Sep25 and Oct25 below.

We do not think that liquidity will develop in monthly contracts by the time MVTs are introduced, nor should they for two reasons. The first reason is that the LME's market structure, where there is greater liquidity in the cash and 3M, is a result of the underlying physical market and it continues to support the physical market. The second reason is that splitting the liquidity across the curve will result in insufficient market depth for each point of the curve, especially the essential points of the curve that OTC contracts frequently reference.

As such, it is not appropriate to apply a threshold for monthly outright contracts, let alone the same MVT as for 3M.

| (Live Only) CADF | | | | | | | | | | | |
|--------------------|------|---------|--------|---------|--------|---------|---------|--------|----------|-------|---------|
| Contract | Pos | Last | NetChg | WrkBuys | BidQty | Bid | Ask | AskQty | WrkSells | Vol | Settle |
| CADF CASH | -102 | | | | 1 | 9832.50 | 9841.50 | 1 | | 4 | 9888.78 |
| CADF 3M | | 9763.50 | -29.50 | | 3 | 9762.00 | 9763.50 | 1 20 | | 11435 | 9793.00 |
| CADF 3M | | 9763.50 | -29.50 | | 3 | 9762.00 | 9763.50 | 1 20 | | 11435 | 9793.00 |
| CADF JUL2 | 973 | | | | 1 | 9803.50 | 9807.50 | 1 | | 10 | 9837.32 |
| CADF AUG2 | 200 | | | | 3 | 9782.00 | 9784.50 | 1 | | 5 | 9814.20 |
| CADF SEP2 | -19 | | | | 3 | 9759.00 | 9761.00 | 1 | | 46 | 9789.13 |
| CADF OCT2 | 265 | | | | 1 | 9739.50 | 9743.50 | 1 | | 0 | 9769.38 |

Volumes traded as of 10 June, 15:43 (GMT +1)

Q.2: Do you agree with the two proposed Rulebook exceptions to the MVT Rule? If not, please explain why.

The Associations do not support the proposed Rulebook exceptions to the MVT Rule. While the first exception offers Members acting in a principal capacity an alternative to the crossing method, it still presents significant drawbacks. Requiring Members to first execute an equivalent trade in LMEselect in the exact same instrument restricts their ability to manage risk through other means, such as internalisation. As a result, Members who might otherwise provide tighter bid/offer spreads may instead be forced to widen prices for clients.

Q.3: Are there any other relevant factors that you think the LME should consider in relation to the introduction of an MVT in the inter-office market? (including any views on the proposed parameters in Annex 1)

As noted in our response to Question 1, the LME should consider the liquidity profile and other characteristics of specific instruments (i.e. the specific tenor) when applying the MVT Rule. Rather than applying the rule uniformly across all instruments for a given metal, the LME should calibrate or disapply the MVT as appropriate to reflect these differences.

Q.4: Are there any alternative or additional measures to the proposed introduction of the MVT Rule the LME should consider?

In our 17 December letter, AFME and FIA proposed alternative measures to enhance liquidity on LMEselect, including improvements to the platform's infrastructure and the introduction of implied monthly spreads across the curve to support organic liquidity growth.

As an alternative to the current proposals, the LME should consider upgrading core functionalities, such as reinstating native iceberg orders, enabling more efficient execution of custom rolls, and increasing the FIX connection message rate to better support periods of heightened volatility and trading activity. By upgrading these functionalities, the LME will take steps to regain market confidence in exchange's ability to manage volatile situations.

In addition, the LME may want to improve their procedures around allowing clients to close out their positions and receive cash on a T+2 basis, as this will attract clients to utilise the exchange more readily.

Finally, the LME should note that introducing complex rule sets such as the MVT and crossing requirements will deter market participants from on-exchange activity as it adds layers of complexity and operational risk, and reduces the user's ease of utilising the exchange.

Q.5: Do you agree with the proposed prohibition on Pre-Trade Communications on LMEselect as a matter of principle? If not, please explain why.

We agree in principle to the proposed prohibition on Pre-Trade Communications on LMEselect.

Q.8: Do you agree with the overall approach to implement the proposed Crossing Rule? If not, please explain why.

The Associations do not support the overall approach to implementing the proposed Crossing Rule. The manual crossing method is impractical and increases the risk of operational errors. As outlined in our response to Question 1, the requirement for automated crossing will compel market participants to make substantial investments to upgrade their workflows.

Q.9: Do you agree that manual crosses should be open to both Members and DEA Clients but that automated crosses (referred to as "the LMEselect Crossing Order Type" in the draft Crossing Guidance) should be limited to Members only, and not be extended to DEA Clients? If not, please explain why.

The Associations agree with the proposed approach, keeping in mind our response to Question 8.

Q.10: In your opinion are there any alternative or additional measures to the proposed introduction of a Crossing Rule the LME should consider?

The Associations would like to highlight a concern regarding the application of the MVT rule, particularly in the context of algorithmic order execution.

The current proposal requires that any 3M order under the MVT be executed on LMEselect. However, members rely heavily on algorithmic order execution strategies such as Time-Weighted Average Price (TWAP) or Volume-Weighted Average Price (VWAP) strategies, often referred to as parent orders.

These algorithmic orders often involve larger parent order sizes that exceed the MVT, but due to their execution over extended periods, the child order sizes may fall below the MVT. The essence of these strategies is to achieve the best possible execution for clients, which sometimes means not executing on the central limit order book (CLOB) for the specific contract of the order.

In certain cases, other LME contracts (e.g. through correlation or implied pricing), alternative execution venues or internal liquidity might offer more favourable conditions, such as lower costs or better pricing due to risk management needs. By applying the MVT rule to child order sizes, the LME may inadvertently limit the ability to achieve optimal execution for clients. It is important to highlight that as an exchange, the LME cannot offer these types of executions directly, as they require a certain element of risk-taking to achieve the best possible execution.

Therefore, we propose that the MVT should reference the parent order size rather than the child order size. This could be facilitated by introducing a new flag on the clearing size, indicating that the trade is part of a larger parent order exceeding the MVT. We believe this adjustment would better align the MVT rule with the goal of achieving best execution for clients while maintaining market integrity.

Additionally, we would like to propose the inclusion of a specific trading scenario in the official documentation regarding exemptions from the MVT rules. The scenario involves a client executing a 3M Aluminium DEA trade on LME Select using an algorithm, resulting in multiple small fills. These fills are then adjusted by the member to the June 3rd Wednesday at or above the MVT threshold in the inter-office market.

Including this example would provide clarity and ensure that all market participants understand the conditions under which such trades are exempt from the MVT rules. This addition would help prevent any potential misunderstandings and ensure consistent application of the rules across the market.

About AFME

AFME represents a broad array of European and global participants in the wholesale financial markets. Its members comprise pan-EU and global banks as well as key regional banks, brokers, law firms, investors and other financial market participants. We advocate stable, competitive, sustainable European financial markets that support economic growth and benefit society.

For more information: www.afme.eu

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About FIA

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 about 50 countries as well as technology vendors, law firms and other professional service providers. 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 clearing firm members play a critical role in the reduction of systemic risk in global financial markets.

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