

Consultation Response

AFME response to the London Metal Exchange (LME) consultation: Introducing Regulatory Position Limits, Exemptions and Position Management Controls; decommissioning the systematic Fixed Price Auction; amending the Matching Rules and the Fixed Penalties Notice.

27 March 2026

The Association for Financial Markets in Europe (AFME) welcomes the opportunity to comment on the LME consultation: Introducing Regulatory Position Limits, Exemptions and Position Management Controls; decommissioning the systematic Fixed Price Auction; amending the Matching Rules and the Fixed Penalties Notice. 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.

AFME is the European member of the Global Financial Markets Association (GFMA) a global alliance with the Securities Industry and Financial Markets Association (SIFMA) in the US, and the Asia Securities Industry and Financial Markets Association (ASIFMA) in Asia.

We summarise below our high-level response to the consultation, which is followed by answers to the individual questions raised.

Executive Summary

AFME members broadly support the LME's objectives in implementing the MAR 10 regulatory framework, including the introduction of Regulatory Position Limits, Accountability Thresholds, and the new Person Subject to the Rules (PSR) status. However, members have significant concerns across several areas that, if unaddressed, risk reducing market liquidity, inhibiting legitimate hedging activity, and placing disproportionate operational burdens on firms.

On position limits, members consider a number of the proposed levels to be materially too restrictive relative to market size, particularly for certain metals such as tin, aluminium, and zinc. At the proposed levels, financial institutions would be unable to sustain existing OTC index swap activity, and headroom would be insufficient to absorb periods of elevated client hedging demand. Members urge the LME to recalibrate limits with reference to actual market conditions and to provide greater transparency on the methodology used.

On exemptions, members welcome the pass-through hedging exemption in principle but raise concerns about the operational complexity of applying on a client-by-client or trade-by-trade basis. Members urge the LME to permit portfolio-based exemption applications, accept written confirmations beyond ISDA representation letters, and clarify how client anonymity obligations are to be reconciled with exemption application requirements.

On monitoring and notification, members consider the expectation of real-time position monitoring and immediate breach notification to be disproportionate. They propose alignment with the ICE Futures Europe's (IFEU) approach, whereby breaches are reported on the same day as soon as operationally practicable.

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On governance, members note that the proposed transfer of powers away from the Special Committee may reduce the perceived independence of key decisions, particularly in stressed market conditions, and encourage the LME to preserve appropriate governance safeguards.

On implementation, members consider the 6 July 2026 deadline to be extremely challenging given the complexity of required system changes and the late finalisation of the framework. Members strongly advocate for a phased implementation approach, an industry-wide testing period, and transitional arrangements that extend to member obligations in respect of clients.

On Part 2 of the consultation, members raise no concerns regarding the decommissioning of the SFPAs or amendments to the Matching Rules, but do not support the proposed Fixed Penalty regime for MVT Rule breaches in its current form. Members recommend that initial breaches attract warnings rather than financial penalties, and that self-identified breaches are excluded from penalty.

PART 1 – INTRODUCING REGULATORY POSITION LIMITS, EXEMPTIONS AND POSITION MANAGEMENT CONTROLS

Question 1: Do you agree with the introduction of a new status of Person Subject to the Rules in the Rulebook and the proposed transitional arrangements? If not, please explain why.

AFME members welcome the introduction of the Person Subject to the Rules (PSR) status as it will help to reduce Clearing Member liability where a PSR breaches LME rules related to position limits. Members also seek confirmation that it is only the Clearing Member who would be responsible for a client breach of position limit rules (with liability transferring to the PSR as applicable), and that Executing Members who do not provide clearing services to clients bear no responsibility in this regard.

AFME members encourage the LME to consider whether the process of becoming a PSR may prove too challenging or burdensome to a number of clients (in particular medium and smaller players) which could lead to scenarios where clients who would benefit from a hedging exemption are unable to apply for one, artificially reducing volumes in the market.

For Members facilitating client business, the introduction of a new PSR status will add complexity across a number of areas including onboarding, trade allocation and position limit monitoring, as a result of a bifurcated approach between clients with PSR status and those without. Additionally, a divergence in approach between the CCPs makes it more challenging for Members to support the requirements, who have to account for multiple requirements within and across CCPs in scope of the regime.

The transitional arrangements are welcome; however, it is notable that no transitional period has been extended to Members with respect to their obligations relating to clients. Firms will have to make material process changes in support of these new requirements and may also have insufficient time to make the necessary arrangements ahead of 6 July 2026.

The LME is encouraged to extend the transitional arrangements to allow firms sufficient time to review their systems and processes, plan and implement changes considering these new design principles.

Question 2: For the purposes of calculating the size of positions in Critical and Related Contracts against a Regulatory Position Limit and an Accountability Threshold, should the LME require that net positions be aggregated via 'Option A' or 'Option B'? Please explain why.

Option B is our preference as this is more in line with the existing aggregation methodology in the market, which would lead to shorter implementation times.

In addition, Option B more appropriately reflects participants' net economic exposure by recognising offsetting positions. This avoids overstating gross exposures, which could otherwise constrain legitimate hedging activity and reduce market liquidity without a corresponding reduction in risk.

Option A would also be much more operationally complex to both set up and maintain. It would be more difficult for trading desks to monitor against multiple buckets.

Question 3: Do you agree with the LME's proposed levels of Regulatory Position Limits? If not, please explain why.

We note the proposed limits are significantly lower than the current FCA limits. This could have unintended negative impacts on market liquidity, particularly if combined with a scenario where fewer hedging exemptions are granted if clients do not pursue PSR status (as noted in our response to Q1 above).

Members are still in the process of assessing these limits against historic utilisation and expect to provide the LME with additional feedback in due course.

The proposed levels are particularly restrictive for certain products (e.g. Tin other month, Aluminium spot and other month, Zinc other month) and would effectively eliminate the ability of financial institutions to offer OTC index swaps to clients. Financial institutions typically hedge the underlying index components by establishing positions in futures contracts, and the proposed limits would not accommodate existing activity today, let alone allow for growth. Furthermore, firms would not be able to use the pass-through hedging exemption for such business, as many investor clients are not necessarily hedging commercial risk exposure through these index swaps.

Members also believe that many of these position limits have been calibrated at levels that are too restrictive given the size of the market and growth opportunities. For illustrative purposes, at the height of aluminium inventories in 2014, inventory levels reached approximately 5mt or 200,000 lots. A market participant holding even one-fifth of those inventory levels (which is well below a dominant holder's position) would be in breach of the proposed limits – and this does not account for the approximately 35% growth in the aluminium market since that time. Setting limits at these more restrictive levels will inhibit growth and limit Members' ability to service their clients.

Members would welcome the LME providing further colour on how the proposed indicative position limit levels were specifically calibrated based on the criteria set out by the FCA, and whether this took into account potential stress scenarios. Limits should incorporate sufficient headroom for periods of elevated volatility, as higher volatility can translate to increased client hedging activity, changing risk sensitivities (gamma, delta) and greater rebalancing activity. If limits are too restrictive, this will reduce liquidity at precisely the times when liquidity providers should be ready to absorb higher client flows.

Members would also note that applying overly restrictive limits may incentivise firms to redirect flow to other exchanges offering similar products (e.g. CME).

Once we have completed our analysis, we expect to engage with the LME on increasing some of these limits. If the LME is unable to increase the limits, we would propose a transitional period for these lower limits to come into effect so market participants can apply for exemptions in time and identify which clients will have exemptions in place longer term to limit market disruption.

Question 4: Do you agree with the LME's proposed Rules on Regulatory Position Limits? If not, please explain why.

The wording of the proposal would seem to indicate an expectation of 'real-time' monitoring of both Member and client of Member positions against position limits (requirement of immediate notification). We note the operational burden and challenge this could place on firms, in particular for client of Member positions. Whilst firms may have intra-day monitoring arrangements in place, the expectation of real-time monitoring and notification is excessive for the market risk posed. We propose a similar approach to other proposed regimes where positions are monitored intra-day and notifications of breaches are reported as soon as practicable to the exchange.

The proposed rules, in particular the requirement for real time monitoring and immediate notification, fails to strike a balance between the market risks being addressed by these rules and the other risks being managed every day by Members. Resources supporting other critical processes facing same-day demand, such as trade and margin processing, may need to be redirected to facilitate this requirement, potentially increasing other more direct risks to the proper functioning of the market.

Additionally, real-time position monitoring and immediate notification do not factor in the realities of trading and post-trade operational flows which involve multiple trading counterparties and give ups among Members.

The LME is encouraged to align with IFEU's approach to intra-day monitoring and reporting to help achieve a more consistent and pragmatic implementation across the industry. The LME should apply more proportionate intraday requirements to Members that afford firms the ability to monitor position limits and notify the CCP 'same day as soon as operationally practicable' rather than immediately.

Question 5: Do you agree with the LME's proposed powers, the responsibilities of Members and Persons Subject to the Rules, and clarification of the LME's disciplinary powers to enforce the new regime pertaining to Regulatory Position Limits, Exemptions, Exemption Ceilings and position management arrangements? If not, please explain why.

See response to Q4.

The proposed framework appears to blur the distinction between the power exercised by the LME itself and those historically exercised by the Special Committee. Historically, the Special Committee has played an important role in periods of market stress or disorderly conditions, providing an additional layer of governance through a body composed of both LME representatives and independent members. This structure has provided market participants with comfort that significant or exceptional measures would be subject to sign-off by a body including representatives notionally independent of the LME. Under the proposed changes, it appears that many of these powers are either replicated within, or transferred, to the LME's internal enforcement and operational teams. This may reduce the perceived independence of key decision-making and in turn affect market confidence particularly in stressed market conditions where the exercise of such powers can have significant commercial impacts.

Members also note that current position limit exemption types are not aligned with how many financial institutions manage and hedge risk, which is typically on a dynamic portfolio basis rather than on a counterparty-by-counterparty basis. Members urge the LME to give further consideration to introducing a fourth exemption type to accommodate scenarios where an LME Member can demonstrate that a position is held for bona fide hedging purposes.

Question 6: Do you agree with the LME's proposed Rules on Exemptions and Exemption Ceilings? If not, please explain why.

We broadly agree with the rules. However, there are concerns about the timeframe for clients implementing the PSR rules, and the time it will take to execute the supporting documentation, implement system enhancements to apply, monitor, and report against the exemption.

We would also like to seek clarity on how positions are to be reported when exempt to the LME as per paragraph 103 in Section D. Are exempt positions not to be reported to the LME in the first instance, with only non-exempt positions reported? Or are all positions in a particular contract to be reported, with the LME applying the applicable exemption to the participant's position ceiling? We would also seek clarity as to when exemption application forms will be provided.

In order to assist with implementation and monitoring, AFME members request that the LME make available a golden-source EOD exemption/reference data file at client/LEI level to allow Members to understand which trade is linked to which exemption.

Pass-through Hedging Exemption

In the experience of Members facilitating client activity in commodity derivatives, risk is not managed on a static one-to-one basis between individual client trades and exchange-traded hedges. Instead, exposures arising from multiple client transactions are typically aggregated and managed on a portfolio basis, taking into account net risk across products and maturities.

Members note that the LME has yet to circulate the pass-through hedging exemption form. When assessing pass-through hedging exemption requests and exemption ceilings, members ask that the

LME take into account risk management on a portfolio basis, as well as tenor transformation that may occur through hedging activity. For example, many OTC client transactions extend over longer maturities, whereas liquidity in listed contracts is typically concentrated in shorter-dated instruments. As a result, financial entities may hedge longer-dated exposures using shorter-dated futures, which are rolled over time.

Members would also note that submitting applications on a client-by-client or trade-by-trade basis will introduce unnecessary operational burden for both firms and the LME. Members urge the LME to allow firms to apply for a portfolio-based exemption, whether through the existing pass-through exemption or by considering a fourth exemption type. Members note that MAR 10.2.14 to MAR 10.2.21 does not specifically require each exemption to correspond to a specific non-financial entity, or a specific hedging transaction.

With respect to the written representations that a financial entity is required to obtain from the non-financial entity confirming that the position facilitates hedging, members consider the LME's requirement for this to take the form of an ISDA representation letter to be overly prescriptive. Members would suggest that the LME focuses on substance and evidential sufficiency rather than strict legal form, by allowing evidence to take the form of other written confirmations in addition to an ISDA representation letter. This would be in line with the level of proof required under other regimes, such as the CFTC's bona fide hedging exemption, and is also consistent with FCA MAR 10.2.17 which simply requires written confirmation to be obtained.

Finally, members ask that the LME provides clarity on the turnaround time for reviewing exemption requests submitted after 6 July 2026. Members anticipate scenarios where exemptions may be needed at relatively short notice based on client demand.

Client Anonymisation and Pass-Through Exemption Applications

Members understand that the LME will not accept a pass-through exemption application submitted on behalf of an anonymous underlying client. Members seek clarification on how this requirement is expected to be reconciled with Members' obligations under applicable regulatory frameworks that may restrict the disclosure of client identities to third parties. Members would welcome early engagement with the LME on this point, as it has the potential to prevent legitimate hedging activity from qualifying for an exemption in practice.

Question 7: For the purposes of calculating the size of positions in OTC contracts against an Accountability Threshold, should the LME require that net positions be aggregated via 'Option C' or 'Option D'? Please explain why.

To align with the approach set out in our response to Q2 and to avoid unnecessary deviation from established aggregation approaches, our preference would be Option D. This approach would ensure that net positions are aggregated across all relevant prompt and expiry dates, providing a more accurate reflection of exposure in the relevant contracts. Specifically, for the purposes of netting and aggregating positions in each of the Spot Month Contracts or the Other Months' Contracts with respect to Accountability Thresholds for OTC contracts, the LME would aggregate net positions across all relevant Prompt Dates and expiry dates in all OTC contracts.

Question 8: For the purposes of calculating the size of positions in LME Contracts and OTC contracts against an Accountability Threshold, should the LME require that net positions be aggregated via 'Option E' or 'Option F'? Please explain why.

In order to align with the approach in our response to Q2 and to avoid deviation from current aggregation approaches, our preference would be Option F: for the purposes of netting and aggregating positions in each of the Spot Month Contracts or the Other Months' Contracts with respect to Accountability Thresholds for LME Contracts and OTC contracts, the LME would aggregate net positions across all relevant Prompt Dates and expiry dates in all LME Contracts and all OTC contracts.

Question 9: Do you agree with the LME's proposed Rules on Accountability Thresholds? If not, please explain why.

The maximum cumulative Accountability Threshold (lots) for Lead at 400 appears to be incorrect; we assume this should read 4,000.

We have concerns with the Clearing Members' additional responsibility to monitor client positions vs Accountability Thresholds at all times and Members being held in breach of the Rules should a client not engage with the LME.

Consultation - Part 3 Trading Regulations 28.3 - *Except as expressly permitted by the Rules, Members (each a "Relevant Member") shall ensure that, at all times, each position held by each of their Clients (each a "Relevant Position") in a Critical and Related Contract shall be monitored against the Accountability Thresholds as if those positions were the Member's own positions. Members shall be responsible for ensuring that Clients respond to any information request made or any direction given by the Exchange or the Special Committee and any failure to do so may be deemed a breach of the Rules.*

We note that requiring Members to monitor and be accountable for client positions against Accountability Thresholds at all times presents significant practical challenges. Members do not have full visibility or control over client trading activity, particularly where clients hold positions across multiple brokers or venues, including offsetting exposures that are not observable within a single clearing relationship. As such, holding Members responsible on a continuous basis risks creating an obligation that is not aligned with the level of information or control available to them.

We propose that 'Members shall be responsible for' be replaced with 'Members take reasonable steps'.

Members would also encourage the LME to streamline its processes by performing Accountability Threshold monitoring across a Member's netted OTC and ETD positions. Many Members enter into on-exchange transactions primarily to hedge OTC positions arising from principal client trading activity, and accordingly manage risk on a netted basis across both OTC and ETD. Given that Members already provide their OTC positions to the LME on a weekly basis, monitoring across netted OTC and ETD positions would avoid Members routinely explaining that their overall risk position is within Accountability Thresholds on a net basis – information that the LME already holds.

Question 10: Please provide any other comment you may have on the LME's proposed implementation of the MAR 10 rules.

The implementation timeline to meet the 6 July deadline was already very challenging; additional Member consultations in Q1 2026 have caused slippage in finalising the frameworks into April 2026, making adherence to this deadline extremely challenging.

Implementation of the rules requires further assessment of post-trade operational flows between Members and clients, their account structures and internal or external vendor platforms which underpin these processes. The LME's bifurcated approach creates additional complexity which requires system enhancements under extremely aggressive timelines.

We would strongly encourage the LME to incorporate an industry-wide testing phase prior to go-live, allowing Members, clients and infrastructure providers to validate end-to-end processes, including PSR onboarding, exemption handling and position monitoring. Given the scale and complexity of the proposed changes, a phased implementation approach should also be considered to reduce implementation risk. Alignment with approaches adopted by other major venues would further reduce the risk of market fragmentation and support an orderly transition.

With respect to the reporting of client exemptions, members note that PSRs will be required to notify their Clearing Members of exempt status and provide daily updates on the proportion of their positions that are exempt. Members do not currently have processes in place to manage the receipt of such information on a bilateral basis and to ensure it is captured accurately in reports. Members urge the LME to adopt a similar approach to ICE Futures Europe and provide Clearing Members with a daily report detailing the exemptions that have been granted to their clients – including the exemption

reference, type and duration (but not the size of the exemption ceiling). This would greatly assist in streamlining internal processes and avoiding errors in CPR reports.

PART 2 – DECOMMISSIONING THE SFPA AND AMENDMENTS TO THE MATCHING RULES AND THE FIXED PENALTIES NOTICE

Question 11: Do you consider that the decommissioning of the SFPA will have any negative operational or transitional impact? If so, please explain why.

Members do not foresee any operational or transitional impact associated with this proposal.

Question 12: Do you consider that the decommissioning of the SFPA will have any data usage implications? If so, please explain why.

Members do not foresee any negative implication associated with this proposal.

Question 13: Do you have any other comments on the proposal to decommission the SFPA?

Members do not have any further comments on the proposal.

Question 14: In relation to the proposed changes to the Matching Rules, do you consider that removing the requirement from having a four-way agreement to document a Metal Position Exchange will negatively affect the process? If so, please explain why.

Members do not foresee any negative impacts associated with this proposal.

Question 15: In relation to the proposed changes to the Matching Rules, do you consider that removing the “commercial user” requirement will negatively impact your ability to execute Metal Position Exchanges on behalf of Clients? If so, please explain why.

Members do not foresee any negative impacts associated with this proposal.

Question 16: Do you have any other comments on the proposal to amend the Matching Rules? If so, please provide comments.

Members do not have any further comments on this proposal.

Question 17: Do you agree with the LME’s approach to treating breaches of the MVT Rule as a Fixed Penalty? If not, please explain why.

Members do not agree with the proposal and urge the LME to take a pragmatic approach in reviewing breaches of the MVT rules. We would encourage the LME to consider informal warnings rather than

penalties for the first two breaches and reduce the time period for the third, rather than imposing fines for the initial breach, as follows:

A Member who commits such breaches would be subject to a Fixed Penalty as set out below:

- Warning for a first breach;
- Warning for a second breach; and
- £15,000 for each breach thereafter within a 12-month rolling period (starting from the first breach).

Additionally, when a breach is self-identified and reported, it should not result in a penalty.

Question 18: Do you agree with the level of Fixed Penalty in respect of a breach of the MVT Rule? If not, please explain why.

Please see our response to Q17 above. Members also suggest that the LME shorten the timeframe from 24 to 12 months.

Q.19: Do you have any other comments on the proposal treating breaches of the MVT Rule as a Fixed Penalty? If so, please provide comments

Members urge the LME to take a pragmatic approach in reviewing breaches of regulatory position limits, exemption ceilings or failures to comply with rules pertaining to position management controls particularly where the breach is outside of the Members' control (e.g., GUNGS).

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