

**From:** Neil McGeown [Neil.McGeown@lme.com]

**Sent:** 16 August 2006 15:45

**To:** MARKET G3

**Subject:** Call for Evidence: Pre- and post-trade transparency provisions of MiFID

Dear Sirs,

1. The London Metal Exchange, which is a UK Recognised Investment Exchange and will be a MiFID regulated market, welcomes the opportunity to respond to the Call for Evidence from the Commission on pre- and post-trade transparency provisions of the Markets in Financial Instruments Directive (MiFID) in relation to transactions in classes of financial instruments other than shares, such as commodity derivatives. The LME is responsible for more than 90 percent of global on-exchange trading in base metals derivatives with turnover in 2005 exceeding 78 million contracts of value more than \$4.5 trillion; it is the only exchange in the European Union offering trading in derivatives on base metals and plastics.
2. The Exchange supports strongly the Commission's initiatives on better regulation and open consultation. It also agrees with the Commission that there should be impact assessments that scope issues to determine the most appropriate options based on costs and benefits and the impact on financial stability, proper functioning of markets and consumer protection. The LME welcomes the pragmatic approach taken by the Commission in interpreting Article 65(1) of MiFID as giving latitude for different approaches to be taken towards transparency obligations depending on the nature of instruments and the characteristics of users of the instruments.
3. The Exchange agrees with the Commission proposal that it should investigate the need for changes to pre- and post-trade transparency requirements for commodity derivatives only to the extent that respondents to the Call for Evidence consider that there are or may be problems that need to be addressed. It believes that should the Commission be called upon to reflect on any comments that it may receive concerning the transparency of commodity derivatives that it should take into account whether the particular instruments are traded on regulated markets, the nature of the particular instruments, the transparency needs of typical market users of those instruments, the execution venue(s) where the instruments are traded, and the trading facilities used for their trading.
4. Clients of LME Members are primarily knowledgeable and experienced wholesale and industrial users and professional funds that use exchange-traded futures and options on non-ferrous base metals and plastics traded on the Exchange to hedge risk and to trade; retail investors are a negligible presence on LME markets. Users typically have a client relationship with several Members and generally seek comparative quotes from a range of Members before trading. The clients are guided in their trading decisions by the ready availability of firm and/or indicative pre-trade quotes and by real-time trading information available immediately in the case of trading taking place electronically or by open outcry.

5. Trading on the LME is possible simultaneously by telephone, open outcry, and electronically; each method of trading can present different technological challenges when it comes to providing pre- and post-trade transparency.
  - In the case of electronic trading, users of the LME markets are able to see real-time bids, offers and order depth before trades take place; there is real-time post-trade transparency.
  - With respect to open-outcry trading, users of the LME markets are able to see real-time bids and offers before trades take place; there is real-time post-trade transparency.
  - Pre-trade transparency of telephone trading is provided by published indicative quotes of LME Members supplemented by the real-time pre- and post-trade transparency of electronic and/or open-outcry trading; much of the trading on the telephone market takes place during the hours when trading is also taking place by the other two permitted means of trading.
6. Presently, trading volume on the LME is split approximately equally between the three trading methods - electronic, telephone, and open outcry. Ultimately, market users will determine which of these methods most meet their needs with respect to liquidity, efficiency, and transparency. As the Exchange has not been the recipient of demands from its market users for changes to the transparency of pre- or post-trade information it is confident that the Commission is unlikely to be made aware of problems that need addressed with respect to on-exchange trading in the derivatives in which the LME specialises.
7. We would be pleased to meet Commission officials to discuss transparency of commodity derivatives should they consider this useful.

Yours faithfully,

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