

MMTA-LME Online Price Discovery System

Dear Member,

At the end of last year the LME approached the MMTA to explore areas of mutual interest including the possibility of a physical metal trading platform. The MMTA main committee decided to set up a liaison group to discuss this further with the LME.

The liaison group believed that the Association's members would have little or no appetite for such a platform but did identify an area which might have some traction – namely a new, more representative price discovery system.

Below we have outlined the basic principles, aims and benefits behind this **Online Price Discovery System** (referred to as OPDS).

AIM

- To provide effective, representative pricing by collating bids and offers of metal prices to create a weekly quotation set by market participants.

BENEFITS

- Pricing that doesn't require a concluded contract but rather will be based upon participants' buy-sell spreads, i.e. prices will reflect prevailing market movement regardless of illiquidity in that market.
- Prices determined mathematically using a consistently applied pricing methodology, generated solely by global industry input.
- Ability for market participants from all over the world to have input by simple online access.
- Ability for producers and consumers to input prices where in the past they may have been prevented from speaking to journalists at metal publications by corporate governance.

DETERMINING A PRICE

- Contributors will submit prices based on the MMTA standard specification, basis prompt delivery (10 working days) in-warehouse Rotterdam, The Netherlands, customs and duties unpaid.
- Prices will be established every Wednesday.
- Contributors can post bids, offers or bid/offer spreads from 01.00 to 15.00 GMT on the day of publication. Provisional prices will be established by 15.15. The LME/MMTA quotations committee "Quotations Committee" reviews prices and publishes final prices at 15.55. The timeframe is set to allow global participation.

- Contributors to enter bids, offers, or a bid-offer spread.
- All prices to be input electronically via LME GUI through the internet.
- Contributors able to overwrite quotes until 15.00.
- All quotes to be anonymous to all other users; however the Quotations Committee will have full visibility of Contributor and price for policing purposes.
- The Quotations Committee will set a quorum required for price determination. It is envisaged a quorum of four bids and four offers will be required for price determination after an initial running-in period.
- In very rare circumstances, the offer might be lower than the bid, in which case a mid-point between the bid and offer will be established and an artificial bid-offer spread created by calculating a set percentage from the midpoint and adding to the mid-point for the artificial offer and subtracting from the mid-point for the artificial bid. Creation of this artificial price will be flagged to Quotations Committee.
- If there is no quorum, then the price cannot be updated.

MEMBERSHIP

- Contributors can be any company, within or outside the MMTA who can demonstrate to the Quotations Committee an involvement in the physical minor metals industry and specifically involvement in those metals for which they are posting bids and offers. This will include trading companies, producers and consumers.
- Contributors must post bids, offers or a bid-offer spread.
- Prices must accurately reflect the market. If asked to justify a bid or offer, Contributors must be prepared to submit to the Quotations Committee contracts for the business transacted during the period under examination, or any other evidence that is deemed appropriate (for instance third party bids or offers made to the company). Failure to do so can lead to suspension / expulsion.
- Prices posted will be visible to the Quotations Committee. The committee can suspend a Contributor if it (a) fails to account for prices or fails to supply prices on a consistent basis or (b) consistently supplies substantially inaccurate prices.
- The decision of the Quotations Committee in deciding all matters within its remit shall be final.

OUTPUT OF PRICES

- Contributors plus MMTA and LME members who subscribe to the system will receive each week the provisional prices, the final prices and also data detailing the number of bids and offers and the highest and lowest bid and offer (after the exclusion of unreliable bids and offers in accordance with above).
- Non-contributors and non-members will receive only official prices at a later time.
- Price to be displayed via a secure website, accessible via login code only.

MMTA/LME ROLES

It is important that members understand the nature of the co-operation between the MMTA and the LME.

- The LME will provide the host system and technical support for the online pricing.

- The LME will jointly staff with the MMTA a quotations committee to monitor the price input against wildly high or low prices, fat finger mistakes and other similar errors.
- The LME will own IPR on prices and contributors and subscribers will be prohibited in onward distribution of prices.
- The MMTA's specification norms will form the basis for this pricing system.
- The MMTA Executive will sit on the quotations committee.
- The MMTA will make training on the new system available to members.

GENERALITIES

- OPDS will be made available free of charge for an introductory 1 year period to gain traction.
- After the introductory period a three band charge rate will be introduced. Band 1 (cheapest) will be for contributors who are members of either the MMTA or LME. Band 2 will be for contributors who are neither members of the MMTA or LME. Band 3 will be for subscribers who wish to receive pricing information but who do not wish to contribute.
- It has already been determined that such a price discovery system will not be subject to regulation under the UK's Financial Services Authority's (FSA) rules so the LME's involvement will not bring regulation to the physical minor metals markets.

METALS

At this stage, the following metals have been flagged as suitable for the new price discovery system. Further consultation of the MMTA's membership will take place to refine this list for specific grades if the membership votes to continue discussions.

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|-------------|----|
| • Antimony | Sb |
| • Bismuth | Bi |
| • Cadmium | Cd |
| • Chromium | Cr |
| • Indium | In |
| • Magnesium | Mg |
| • Manganese | Mn |
| • Selenium | Se |
| • Silicon | Si |
| • Titanium | Ti |
| • Tungsten | W |
| • Vanadium | V |

TIMETABLE

- October 12th Monday 10:00 'Questions and Answers' forum to be held at the Royal Automobile Club (RAC) club for members of the MMTA panelled by Guy Darby, Sarah Frigot and Charles Swindon from the MMTA and Chris Evans and Tom Hine from the LME (map and directions below).
- November 20th Friday 18:00 Cut off time for MMTA members to vote as to whether members want their association to continue discussions with the LME with a view to introducing the OPDS to the market.

GUIDANCE ON VOTING

- All MMTA members will be allowed to vote on this issue however service members who have no direct industry involvement, i.e. they do not buy/sell or trade the metals listed may wish to abstain from voting.
- Votes to be cast by email (executive@mmta.co.uk) or fax (+44 208 183 9933) to the Executive of the MMTA to be received no later than 18:00 GMT on Friday 20th November 2009, if no vote is received by a member company it will be deemed that the company has abstained from voting.
- The association will continue its discussions with the LME with a view to future introduction of the OPDS if a minimum 51% of cast votes are in favour of the motion. An abstention will be viewed as a non vote.

It is important to note that this is not a trading platform but a price discovery system. Although the system refers to bids and offers, there is no facility to make a market or to book business based on an anonymously posted price.

With its co-operation with the LME the MMTA will lose none of its independence, rather both parties will bring an area of expertise to the co-operation.

The MMTA will only proceed if it has the support of its membership however if the membership decide against it then the LME may well proceed without the MMTA.

Your main Committee believes this system to be a viable alternative to current price discovery arrangements. If you require any clarification on this system please don't hesitate to contact the Executive, Roland Chavasse, who will ensure your questions are responded to by the relevant person.

We look forward to welcoming you to the RAC club at 10.00 am on October 12th 2009. Please note there is a dress code at the club.

Guy Darby
Chairman



Press Statement:

The MMTA (Minor Metals Trade Association) has been in discussion with the LME (London Metal Exchange) regarding an Online Price Discovery System (OPDS) for a number of minor metals. Details of these discussions have been submitted to its membership who will vote by 18:00 GMT on Friday 20th November 2009 as to whether to continue discussions with a view to a future introduction of the OPDS.

Map and directions to the Royal Automobile Club (RAC) club, London:

The meeting will start at 10am London time. On arrival ask for the 'Committee' room.

DRESS CODE: Gentlemen wear tailored business suits, or tailored jackets and trousers, together with a collared shirt and tie at all times and in all areas of the clubhouse. Ladies are expected to dress with appropriately.

Address:

Pall Mall Clubhouse
89 Pall Mall
London SW1Y 5HS
United Kingdom

Tel: +44 20 7930 2345

Fax: +44 20 7976 1086

www.royalautomobileclub.co.uk

