



LONDON METAL EXCHANGE

11 January 2007

The Committee of European Securities Regulators
11-13 avenue de Friedland
75008 PARIS
FRANCE

Dear Sirs,

Use of Reference Data Standard Codes in Transaction Reporting

The London Metal Exchange welcomes the opportunity to comment on the use of the reference data standard codes that CESR is proposing firms should use when making transaction reports to competent authorities. We note that this will be a requirement for commodity derivatives. This is despite Recital 3 of Commission Regulation (EC) No 1287/2006 stating that “[D]etailed and fully harmonised transparency requirements and rules regulating transaction reporting are appropriate so as to ensure equivalent market conditions and the smooth operation of *securities markets* throughout the Community (our emphasis)”.

The Commission has also determined that the most appropriate options for regulation should be based on costs and benefits and the impact on financial stability, proper functioning of markets and consumer protection. The LME agrees wholeheartedly with this Commission approach. Consequently, as it is surprised at the proposal of CESR to seek to enforce harmonised transaction reporting irrespective of the nature of the instruments traded we would make the following points:

1. There are no ISIN codes for commodity derivatives. To create them merely for the purpose of transaction reporting is onerous and costly to markets and investment firms due to the heavy system and other costs associated with their introduction.
2. Clients using commodity derivatives for managing price risk are mainly producers, processors and industrial users of the underlying commodities. Few, if any, will have a BIC code, as, indeed, will be the case for many of the specialist commodity brokers that are market members.
3. Unlike equities and securities, exchange-traded commodity derivatives are not traded on multiple marketplaces or cleared through a number of CCPs. Hence, the competent authority that regulates the relevant exchange/market has full knowledge of their terms, including currency codes, rendering the use of CFIs irrelevant to other competent authorities.

Although they might appear simple, any requirement for commodity derivatives markets and investment firms active in the markets to change established transaction matching and reporting systems to incorporate ISO8601 (date and time standards) or ISO3166-1 (country codes) will bring no perceivable benefits to financial stability, proper functioning of markets and consumer protection but will instead merely impose high costs.

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CESR should also note that transaction reports are of little benefit to regulators monitoring for market and other abuses for physically settled commodity derivatives. Position reports are the standard tool used by those regulating commodity futures markets in Europe, in the US and around the world. The LME receives daily reports that give a full breakdown by named user of all positions across its markets held by all members and their clients.

The LME would urge CESR to recognise that transaction reports are of very limited use in regulating and monitoring commodity derivatives markets. Requiring changes to systems and procedures by firms and markets active in commodity derivatives should be restricted to measures necessary to comply with the requirements of MIFID.

Should you or your colleagues wish to discuss the comments made by the LME you can contact me by telephone (+44 (0)20 7264 5675), by fax (+44 (0)20 7264 5513), or by e-mail (neil.mcgeown@lme.com).

Yours sincerely

A handwritten signature in black ink, appearing to read 'Neil McGeown', written in a cursive style.