In March I celebrated my fifth anniversary at the London Metal Exchange.

Within months of starting Bear Stearns in the USA went bust, disappearing overnight. Other banks and indeed governments have followed.

What was termed the financial crisis has given way to the sovereign debt crisis. The one constant though has been the public humiliation and excoriation of bankers and the financial sector, and in many instances quite rightly so.

I looked up banker jokes before coming. Most -- and there are plenty of them -- are unrepeatable, but here are a few of my favourite cartoons that sum up the public mood.

Banker bashing is everywhere. This is a photo from outside my local wine shop. Bankers qualified for a 10% discount. Everyone else qualified for 25%.

Politicians, of whatever political stripe, have responded to the public mood and begun to enact a series of measures. Without doubt the legislation that is emerging -- and the politicians are not yet done -- will have profound effects on financial markets.

What I want to talk about today is how what is seen by many as a problem for the banking industry is a problem for all industry. The new legislation doesn’t just affect bankers, it affects you.

I will divide my speech into two sections. In the first section I want to look at some of the key points of the new legislation and explain what that means for you. In the second part of the speech I will look at a number of misconceptions that have arisen about our market.

Everyone in this room is familiar with the European Union and its effect on commerce.

The Single Market, for example, since its creation in 1992 had generated an additional 2.75 million extra jobs by 2009, according to the European Union website.

Other EU legislation has been decidedly less welcome and I refer here to Reach. This sprawling health and safety legislation was no doubt well-intentioned but it has added significant cost to the lead, zinc and other metal industries. One of the paradoxes about the EU is that it can simultaneously be concerned about Europe securing enough raw materials for its industry but also support legislation that makes it more difficult to import those same raw materials.

And so it is with the financial legislation -- specifically the European Market Infrastructure Regulation or Emir as it is known. There is no doubt that this will increase your costs. But, and here there are
echoes of the Reach paradox, what was intended to increase stability in financial markets risks increasing volatility.

Regulated commodities markets like the LME had nothing to do with the 2008 crisis, and yet blanket restrictions on all markets, imposed by European and US governments, are punishing them nonetheless.

EMIR in Europe and the Dodd Frank Act in the USA will make it more expensive to trade and for some, perhaps, too expensive. This will of course affect how business is done in our market, where traditional products will no longer be offered and traditional users will be fewer.

EMIR itself does not impose obligations on the LME, it instead targets you and your brokers.

Here are some of the key market changes you will need to prepare for:

Every exchange-traded derivative and OTC in Europe will have to be reported to what are called Trade Repositories – a fancy name for the giant databases of trading data to be overseen by the new regulator in Europe called ESMA, the European Securities and Markets Authority.

Clearing members of the LME – that is to say your brokers – will be obliged to segregate proprietary business from client business. They will no longer be permitted to hold non-segregated accounts. That means that costs will rise and free credit lines may no longer be offered to smaller industrial players.

Many of you are used to buying or selling metal on a monthly average and hedge this risk with your broker. EMIR and DFA require that if these contracts are standard they must be cleared so long as there are clearing houses able to accept such trades. And if they remain OTC, then collateral requirements – and consequently costs – will rise.

While the main impact will be felt by our membership, and by their clients, the LME is not unaffected. We need to make expensive systems changes to facilitate the required changes to our members’ business.

We are currently exploring ways in which we can make the process of compliance with the new laws easier for members.

For example, we are studying how we might provide trade repository services to the market.

We are also exploring how to expand our “LMEswaps” range of products. We aim to create products that replicate the variety of what is done on the OTC market. Other exchanges such as CME and ICE are also working on similar products in energy, for example.

While these initiatives might soften the blow, be under no illusion that there will still be a blow. ESMA has the perfectly noble mission is “to enhance the protection of investors and reinforce stable and well-functioning financial markets in the European Union”, but will in fact be penalising the ones who require the most protection – albeit inadvertently.
For the metals market this is especially galling for us given that none of the excesses that gave rise to the financial crisis occurred in our market. Indeed, the understandable desire to locate the culprits of the crisis does not translate into a solution for the disruptions in our market.

In response to the justifiable rage against the practices against credit default swaps, trading in all swaps is restricted. So, OTC metal swaps which form a crucial part of keeping smelters running or just-in-time delivery chains lubricated are now seen as a legitimate target.

Asked what the greatest financial innovation of the past 20 years has been, Paul Volcker, former chairman of the Federal Reserve and adviser to President Obama said: the ATM.

Politicians, now publicly putting pressure on regulators to take action, should not forget their role in that CDS market and others. At the heart of the financial crisis, and specifically the collapse of the CDS market, lies the US housing bubble. That bubble was the direct consequence of the Clinton administration’s objective to encourage home ownership among the poor.

Politicians also lie at the heart of the most damaging episode to the LME’s reputation in recent years: warehousing.

In the absence of convincing economic policy, governments have delegated responsibility with dealing with the aftermath of the financial crisis to central bankers.

Central banks have made money available very cheaply and some of it has ended up financing metal in LME warehouses.

Let me say at the outset here that the LME has the deepest of sympathy for those consumers who have experienced difficulties in taking deliveries of metal. The Exchange has moved to mitigate the effects of queues of aluminium – or zinc in New Orleans – and will continue to monitor the market and take action where it can.

Warehousing queues certainly makes for good copy in newspapers and trade magazines: good vs evil where good is Coca Cola and bad is Goldman Sachs.

It is wrong, though, to lay the blame for what is an industry problem at the door only of powerful and maybe unfamiliar banks.

Yes, they have taken cheap money from central banks and bought metal. No, they have not broken any rules in doing so.

The banks would not be financing stocks if (a) they didn’t have a cheap source of money and (b) there wasn’t an oversupply of metal.

It’s the job of the LME to reflect market conditions rather than create them and to that extent it is performing as it should do.

It most certainly is not the job for the LME to say who can and who cannot buy metal or own an LME market. Suggestions that somehow metal has ended up in “the wrong hands” are inappropriate. At the LME we run a free market.
The contango in both the aluminium and zinc markets reflect that the people see these markets as over supplied. The higher premiums reflect the cost of securing supplies from parties other than the producer.

The LME regulates the LME price and not the premium.

Taken together, consumers are now paying less than they were before the financial crisis and most continue to be able to secure metal from their suppliers.

Those complaining about the role of banks in the market should consider where total prices would be now if the banks had not become involved in financing stocks.

It is highly likely that thousands of jobs would have been lost, smelters and refineries shut with severe consequences for supply chains and prices.

Before warehousing reared its head, so before the financial crisis, prices were the hot topic at events like these.

The LME’s position was, and is, that commodity prices are inherently volatile whether they are on exchange or off exchange. In fact, they are more volatile off exchange as this chart show. At least if they are on exchange you can manage the risk.

So, I’m not going to debate whether an exchange increases volatility or not. That chart tells the story. What I do want to explore, however, is some of the language and precepts that people engaged in this debate use.

I think that first and foremost, when people complain about “volatile” prices what they mean is “high” prices.

But “high” is an inconvenient word. Who is to say that “high” is a bad thing? For a consumer in Europe, ok. But for a mine in South America or Africa, “high” is not a bad thing at all.

There is also an assumption here that speculators always benefit from “high”. In fact, it depends on their position.

While on the subject of “speculators”, or “speculation”, these words are often used interchangeably with “manipulator” or “manipulation”.

There is nothing illegal about speculation. Manipulation is illegal and we have measures in place to ensure that our market remains orderly.

The LME tells you what the price is. You might not like the price, but that is the price.

Attempts to regulate the price, rather than the market as some politicians have demanded will lead to disaster. As the late Baroness Thatcher said: “You can’t buck the market”.

A good example of when politicians tried this in the metals market is the Tin Crisis of 1985.
On Oct. 24, the exchange suspended tin dealings after the International Tin Council, which buys and sells tin in the market, announced that it had run out of cash to prop up prices above free market levels.

This chart shows what happened to the price after governments reneged on their commitments.

Finally, a brief mention of electronic trading.

We still have people who ask us to turn off LMEselect, our electronic trading platform.

It’s bit like asking Apple to uninvent the iPad, or car manufacturers to make cars that don’t start in the morning like back in the 1970s.

Electronic trading has brought a new level of transparency, liquidity and indeed democracy to the market.

Our rules governing its use – around trade to order ratio, for example, and the speed at which trades can be submitted – are well understood and enforced. As with all LME rules, they are constantly under review. But there can be no turning back.

I have sought to draw out some of the concerns that between the LME has with new politically motivated regulations that might adversely affect our market.

To be clear, the LME is a regulator itself and has strong and productive relations with regulators around the world.

The LME has run a robust market for 137 years and together with our regulators we share the task of providing transparency and security to the users of the market.

Regulators and informed observers understand that the LME’s strength comes from our connection between people like you, customers in the physical metal market, and the financial market.

The acquisition of the LME by HKEx last year will reinforce this relationship.

Our shareholders voted overwhelming for the transaction, attracted by the thought of access to China, the world’s biggest producer and consumer of metals.

We have our first member from China – the Bank of China International – and will no doubt see many more members from this region as they facilitate business for their customers.

The injection into the market of this new business will keep our market relevant to both the physical and the financial markets for years to come.

Both groups will on occasion have very different outlook, history and purpose, but despite everything share a common purpose in the shape of the market that they use and need.

It is the job of those who regulate markets to ensure that there is balance between the two groups so that both can get their business done.

And the reality of the situation is that the bankers are not going away.
As one of the wittier banker jokes, it goes:

“Bankers never die.... They just lose interest.”

It’s much easier (and funnier) to blame all our problems on bankers, but the truth is that the market, the LME and you all need them to be there, whether we like it or not.

Thank you.