

Appendix 2

POLICY ON ALGORITHMIC TRADING AND ORDER ROUTING SERVICES

[This is the LME's current proposal – it may be subject to change following the feedback from the consultation.]

Introduction

1. This document sets out the London Metal Exchange's (the "LME's") policy on algorithmic trading and the provision of order routing services by Members to their Clients (also known as "Direct Electronic Access") under MiFID II. This policy addresses the obligations imposed upon trading venues as set out in the MiFID II, with particular reference to Regulatory Technical Standard (RTS) 7, Articles 1, 9, 10, 18, and 21.

Defined Terms

2. Capitalised terms not otherwise defined herein shall have the meaning ascribed to them in the Rules and Regulations of the LME (the "LME Rulebook").

Power to Request Information

3. The LME Rulebook at Part 2 sets out the powers of the LME to request information from Members. For the avoidance of doubt, this shall include the power to request information from Members regarding their organisational requirements and trading controls, or about the organisational requirements and trading controls of any Client of a Member. The Member shall comply with any request of the LME, or shall procure that its Client complies with any request of the LME.

A. ALGORITHMIC TRADING & CONFORMANCE TESTING

4. Prior to any deployment or update of LME Select, the LME and its Members shall engage in testing of the system. The LME may issue guidelines from time to time concerning such testing, and Members shall comply with such guidelines.

Conformance testing

5. Members must undertake conformance testing prior to the deployment or a substantial update of (a) access to LME Select, or (b) the Member's trading system,



trading algorithm or trading strategy. The conformance testing shall ensure that the basic functioning of the Member's trading system, algorithm and strategy complies with the LME's conditions set out in the LME Rules and in this policy. The conformance testing shall verify the functioning of the following:

- a) the ability of the system or algorithm to interact as expected with the LME's matching logic and the adequate processing of the data flows from and to the LME;
- b) the basic functionalities such as submission, modification or cancellation of an order or an indication of interest, static and market data downloads and all business data flows; and
- c) the connectivity, including the cancel on disconnect command, market data feed loss and throttles, and the recovery, including the intra-day resumption of trading and the handling of suspended instruments or non-updated market data.

Certification

6. Members who wish to deploy algorithms must certify to the LME that the algorithms have undergone conformance testing to avoid creating or contributing to disorderly trading conditions prior to the deployment or substantial update of a trading algorithm or trading strategy and explain the means used for that testing. It shall be the Member's responsibility to determine whether a change to an existing algorithm, that has already been deployed, constitutes a "substantial update" or not and whether further certification to the LME is required.
7. To access the LME testing environments, Members, prospective Members and vendors must use the LME's testing environments outlined in the "LME Select and LME Smart Testing Services", which is published on the LME website at www.lme.com/Trading/Systems/LMEselect.
8. Certification to the LME shall take the form of an email to tradingoperations@lme.com, which shall contain the following information, a template for which can be found below:
 - a) Member;



- b) metal(s) for which the algorithm will be deployed;
 - c) testing methodology undertaken by the Member;
 - d) testing period for the algorithm;
 - e) results of the testing undertaken;
 - f) proposed deployment date of the algorithm;
 - g) unique identifier to be used for any orders submitted via the algorithm; and
 - h) contact name and details for compliance contact within the Member firm to whom any queries should be addressed to.
9. The LME will make available in its production environment a testing product symbol that will allow Members the ability to test algorithms before deployment. These test accounts will be made available for use in the lead (test) and gold (test) contracts and will ensure effective separation of the testing environment from the production environment.
10. Full details of the conformance and certification environments can be found in the “LME Select and LME Smart Test Services” document which will which is published on the LME website at www.lme.com/Trading/Systems/LMEselect.

Compliance

11. Members and applicants for Membership will be required to demonstrate, upon request, that they have complied with all relevant regulatory requirements including, but not limited to those set out in MiFID II.

B. ORDER ROUTING (DIRECT ELECTRONIC ACCESS)

12. The LME permits Members to offer order routing services (also known as “Direct Electronic Access” under MiFID II) to their Clients.

Members’ Responsibility for Order Routing

13. Members who offer the facility for Clients to order route to LME Select are reminded



that they are responsible for and remain liable for all trading activity entered into by their Clients. Members shall be responsible for ensuring that those Clients are fully aware of this policy.

14. Members shall also be responsible for the effectiveness of pre-trade and post-trade controls, regardless of whether such controls have been provided by the Member, a third party, or the LME.

Conditions for Offering Order Routing Services to Clients

15. A Member making available order routing services to Clients (a “DEA Provider” and “DEA Client” respectively) shall meet the conditions specified below:

- a) A DEA Provider must be an authorised firm under MiFID II or a credit institution under the Capital Requirements Directive IV (Directive 2013/36/EU).
- b) A DEA Provider shall conduct a due diligence assessment of its prospective DEA Clients to ensure that they meet the requirements set out in MiFID II and the relevant LME Rules.
- c) The due diligence assessment referred to above shall cover:
 - (i) the governance and ownership structure of the prospective DEA Client;
 - (ii) the types of strategies to be undertaken by the prospective DEA Client;
 - (iii) the operational set-up, the systems, the pre-trade and post-trade controls and the real time monitoring of the prospective DEA Client. The Member allowing DEA Clients to use third-party trading software for accessing the LME shall ensure that the software includes pre-trade controls that are equivalent to the pre-trade controls set out in MiFID II;
 - (iv) the responsibilities within the prospective DEA Client for dealing with actions and errors;



- (v) the historical trading pattern and behaviour of the prospective DEA Client;
 - (vi) the level of expected trading and order volume of the prospective DEA Client;
 - (vii) the ability of the prospective DEA Client to meet its financial obligations to the Member; and
 - (viii) the disciplinary history of the prospective DEA Client, where available.
- d) DEA Provider that allows a prospective DEA Client to provide DEA to its own clients shall ensure that the prospective DEA Client has a due diligence framework that is at least equivalent to that set out in this section.

Notification to the LME of Order Routing Services

16. Where Members wish to provide their Clients with order routing services they must advise the LME in advance of the service being activated. Notification to the LME shall be by way of email to: tradingoperations@lme.com, and shall contain the following information:

- a) Member;
- b) name of Client to whom the service has been offered;
- c) Client "Legal Entity Identifier" (LEI), or short code that references appropriate LEI;
- d) details of any limits imposed upon the Client, whether per order, intra-day exposure or maximum position limits, and any other conditions that have been applied to the provision of the service to any particular Client;
- e) proposed deployment date of the service;
- f) unique identifier to be used for any orders submitted by the Client;
- g) confirmation that all relevant regulatory requirements, including but not limited to those set out in MiFID II, have been complied with; and



- h) contact name and details for compliance contact within the Member firm to whom any queries should be addressed to.

17. A Member must ensure that they have in place appropriate policies regarding the conditions under which they offer order-routing services to their Clients.

C. BREACH

18. For the avoidance of any doubt, failure to comply with any of the conditions set out in this Policy shall constitute a breach of the LME Rules and disciplinary proceedings may be commenced against the Member concerned.



LMEselect - Algorithm Certification Attestation

Member
Metal(s) for which the algorithm will be deployed
Testing methodology undertaken by the Member
Testing period for the algorithm
Results of the testing undertaken
Proposed deployment date of the algorithm
Unique identifier to be used for any orders submitted via the algorithm
Contact name and details for compliance contact within the Member firm to whom any queries should be addressed to

Name:

Position / Title:

Signed:

Please email completed attestations to tradingoperations@lme.com