Appendix 3

POLICY ON ORDER CANCELLATION AND CONTROLS

[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 order cancellation and controls. This policy addresses the obligations imposed upon trading venues as set out in MiFID II, with particular reference to Regulatory Technical Standard (RTS) 7, Articles 18, 19, and 20.

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. CANCELLATION OF ORDERS BY THE LME

4. The LME may be required to cancel orders in order to prevent disorderly trading conditions and breaches of capacity limits.

5. The LME may operate a kill functionality to cancel unexecuted orders submitted by a Member, or by an order-routing Client, under the following circumstances:

    a) Upon the request of the Member, or the order-routing Client, where the

Member (or Client if relevant) is unable to delete its own orders;

b) where the order book contains erroneous duplicated orders; or

c) following a suspension initiated either by the LME or by the FCA or any other relevant regulatory authority.

6. The LME may cancel or revoke transactions in case of malfunction of the LME's mechanisms to manage volatility or of the operational functions of LME Select.

7. The LME may also cancel or revoke orders and trades/transactions in accordance with the LME's Policy on Error Trades and Erroneous Order Submission.

B. LME CONTROLS

8. The LME takes steps to ensure that a fair and orderly market is maintained with regard to the submission of orders, and to protect both the LME and Members' own systems and infrastructure from inappropriate activity.

9. The LME has arrangements to prevent disorderly trading and breaches of capacity limits:

a) throttle limit, which limits the maximum number of order entries/updates sent per Member per second;

b) mechanisms to manage volatility; and

c) pre-trade controls.

Throttle limit

10. The LME implements a throttle limit which limits the maximum number of order entry/updates that can take place to 40 per second for each LME Select FIX key or GUI user.

11. Order entry/updates submitted in excess of the throttle limit in any given second will result in those orders being rejected by the system. The LME is not responsible for

missed trading opportunities resulting from the application of the throttle limit.

12. The LME will ensure that Members are treated equally in the application of its order throttling policy.

13. The LME operates mechanisms to halt or constrain order entry/updates and trading at all times during trading hours.

14. The LME will ensure that:

    a) mechanisms to halt or constrain order entry/updates and trading are tested before implementation and periodically thereafter when the capacity and performance of trading systems is reviewed;

    b) IT and human resources are allocated to deal with the design, maintenance and monitoring of the mechanisms implemented to halt or constrain trading; and

    c) mechanisms to manage market volatility are continuously monitored.

15. The LME will maintain records of the rules and parameters of the mechanisms to manage volatility and any changes thereof, as well as records of the operation, management and upgrading of those mechanisms.

16. Members will be aware that the LME operates dynamic price bands for both order submission to LME Select, and trade entry to the Matching System. The LME's dynamic price band functionality can be manually adjusted on contract and prompt levels in line with market conditions to determine market levels, to manage situations where the parameters have to be manually overridden to ensure orderly trading.

17. The dynamic price band functionality enables the LME to manage volatility which may include, where appropriate, the temporary suspension of the matching of orders in LME Select.

18. The temporary suspension of orders would be implemented as follows:

a) The LME may, at its absolute discretion, acting reasonably, suspend trading on LME Select for such periods it considers necessary in the interests of maintain a fair and orderly market. The LME will keep such suspension under constant review, and trading will be resumed as soon as reasonably practicable following any such suspension of LME Select.

Pre-trade and post-trade controls

19. The LME has the following pre-trade controls:

a) The Pre-Trade Risk Management (PTRM) application on LME Select allows the LME and Members to set pre-defined limits on order submission. These limits include the ability to set a maximum value, both in lots and notional value per order. Orders submitted in excess of these limits are rejected, although the Member has the ability to override the limits in accordance with their own internal procedures, and where appropriate.

b) The LME's dynamic price bands use price collars to automatically block orders that do not meet set price parameters. The LME also has systems which allow the LME to set limits for maximum order volumes and maximum order values.

20. The LME's pre-trade controls are designed to readjust limits during the trading session and in all its phases, with a delay of no more than five seconds. Any order that breaches a limit will be rejected once that limit is breached. In exceptional circumstances, the LME may temporarily authorise an order to be executed above the limit at the request of the Member concerned.

21. The LME has the following post-trade controls:

a) Post-trade controls include a continuous assessment and monitoring of market and credit risk of the Member and controls regarding the maximum long and short and overall strategy positions.

b) Members must reconcile their own trading logs with the data provided by the LME, by their Clearing Members; the Clearing House; order routing providers; third party data vendors and/or other relevant business partners. Members are able to calculate outstanding exposure and monitor real time

positions of its traders and clients in LMEmercury.

c) For Members operating an algorithmic trading system, post-trade monitoring must be undertaken by the traders responsible for the algorithm and the risk control functions within the firm.

Monitoring

22. The LME will perform ongoing monitoring of the LME Select, including, without limitation, performance and capacity, orders sent by Members on an individual and aggregated basis, message flow, and the concentration flow of orders, to detect potential threats to the orderly functioning of the market.

Suspension of Access

23. The LME may suspend access to LME Select or any of its systems, either at the individual Member or dealer level or for the whole market, at the initiative of the LME or at the request of the relevant Member or the Clearing House, or where required by the rules of the Clearing House, or by the FCA or any other relevant regulatory authority.

Members' Controls

24. Members shall be required to comply with all relevant regulatory requirements including, but not limited to those set out in MiFID II. In particular Members must have policies in place for the following:

a) Pre-trade controls on price, volume, value and usage of LME Select, and post-trade controls on the Member's trading activities across both LME Select and the Matching System;

b) these policies should set out the process by which the configuration for each control is determined; the process for revising such configuration, and any over-ride or emergency process;

c) the technical and functional conformance testing that must be undertaken prior to deployment of all third-party systems and/or applications that interface with LME Select and/or the Matching System. For the avoidance of

doubt, the reference to third-party systems/applications shall include those developed in-house by the Member themselves as well as those provided by vendors; and

d) in addition to any over-ride or emergency policy referred to in b) above, Members must have a policy relating to the use of kill functionality with regard to business executed on LME Select.

25. Members must ensure that all of the policies referred to in paragraph 24 above, are also reflected in relevant "Business Continuity/Disaster Recovery Plans" (BCP/DR) maintained and followed by Members, such that the invocation of either does not result in any reduction in the level of control exercised over the business conducted through the LME's systems.

26. Members must ensure that all staff in key positions at Members are suitably qualified.