

To: All Members and other interested parties

Ref: 20/217

Classification: Consultation Rulebook

Date: 9 October 2020

Subject: **DECISION NOTICE - PRE-TRADE TRANSPARENCY AND MISCELLANEOUS AMENDMENTS TO THE LME RULEBOOK**

Summary

1. This Notice (the “**Decision Notice**”) follows Notices 20/182 and 20/183, which launched a consultation on certain proposals, including amendments to the Rules and Regulations of the LME (the “**Rulebook**”) and the Matching Rules, relating to the implementation of pre-trade transparency in the inter-office market (“**PTT**”), and other miscellaneous changes.

Background

2. The LME is grateful for the comments received in response to the consultation and has considered them carefully. This Decision Notice summarises those responses and sets out the final Rulebook and Matching Rules in relation to the consultation proposals.
3. This Decision Notice is split into three parts:
 - a) Pre-Trade Transparency
 - b) Miscellaneous Amendments to the Rulebook which required consultation
 - c) Further Typographical Amendments to the Rulebook which do not require consultation

Defined terms

4. Terms defined in the Rulebook shall have the same meaning in this Decision Notice, unless stated otherwise.

Section A) Pre-Trade Transparency

Background

5. Timeline to date:

- a) 15 January 2019 – Market Engagement process with Members and market participants on PTT
- b) 11 November 2019 – Consultation on PTT, setting out three proposals: (i) Manual Fixed Price Auction; (ii) Systematic Fixed Price Auction; (iii) Customer Order Approach / Market Quoting Approach
- c) 20 December 2019 – LME decision to implement the Systematic Fixed Price Auction proposal (“**Systematic FPA**”) in mid-2020¹
- d) 20 April 2020 – the LME postponed the implementation of Systematic FPA, given the backdrop of COVID-19
- e) 22 July 2020 – further consultation notice on Rulebook and Matching Rules changes to achieve Systematic FPA
- f) 2 September 2020 – consultation closed
- g) 14 September 2020 – PTT member test environment opened

6. As noted in the consultation notice, the LME’s targeted go-live date (for implementing Systematic FPA) remains 30 November 2020.

Responses received

7. The LME has taken account of all responses received before the deadline. Exceptionally, it has also exercised its discretion to take account of some late comments, on the basis that the answers to these late questions may also be useful to other market participants.
8. The feedback most often took the form of questions posed to the LME about Systematic FPA. Some were queries about the revised Rulebook and Matching Rules drafting, others were operational queries. These queries (in anonymised

¹ The LME did however reserve the right to amend this decision by way of Notice in light of changing exogenous factors and/or updates to its own analysis of regulatory requirements. The LME continues to reserve this right.

form) and the LME's comments in response, are set out in **Appendix 1** to this Decision Notice.

The LME's Decision

9. Aside from some minor changes and clarifications as a result of the feedback received (see the LME comments in Appendix 1), the LME has decided to implement the revised Rulebook and Matching Rules in relation to PTT, in the form that those documents were set out in the consultation notice.
10. **Appendix 2** contains extracts from the Rulebook, showing in redline the changes between the proposed Rulebook that was consulted upon and the final version, as they relate to certain PTT changes.
11. There is one minor consequential amendment to the Matching Rules. "Cross" is now defined in the revised Rules (as noted in Appendices 1 and 2). The Matching Rules consulted upon referred to "Client Cross" in paragraph 73. This will now instead refer to "Cross". A clean version of the amended Matching Rules is attached as **Appendix 3**.
12. As noted above, the LME is grateful for the detailed feedback that many respondents provided, and for the ongoing engagement of the stakeholder community at large with PTT issues.
13. Anyone wishing to discuss PTT further is invited to contact their Relationship Manager or the Business and Service Development team, at rm@lme.com and bsd@lme.com respectively.

Section B) Miscellaneous Amendments to the Rulebook which required Consultation

Background

14. In Notice 20/182, the LME consulted on a number of miscellaneous amendments to the Rulebook, which were set out in Section B of Notice 20/182.
15. The LME received feedback in relation to three of the proposed amendments, namely the amendments entitled:
 - (a) Provision of Information (Regulation 12.1 and 12.1.4 of Part 2 of the Rulebook);
 - (b) Imposition of Requirements on Clients (Regulation 12.10 of Part 2 of the Rulebook); and

(c) Information Sharing (Regulation 21.2 of Part 2 of the Rulebook).

16. The feedback is also set out (in anonymised form) in **Appendix 4** to this Decision Notice, where the LME has also provided a response.

The LME's Decision

17. In respect of the proposals listed at (a) to (c) above, and the feedback received thereto, the LME would make the following observations, taking each in turn.

(a) Provision of Information

18. Through proposed amendments to Regulation 12.1 and 12.1.4 of Part 2 of the Rulebook, the LME sought to clarify and broaden the obligation of Members to provide information relating to over-the-counter business in metals. The LME has carefully considered the feedback in respect of these proposals and understands the concerns raised by Members. However, the LME considers that it is appropriate for it have the proposed powers in order to monitor, detect and investigate instances of potential market abuse. This is essential from a regulatory perspective so that the LME can continue to meet its regulatory obligations, and maintain the ongoing integrity of its market. The LME believes that in order for it to detect and investigate potential market abuse, it is necessary to identify the linkages that exist between the on-exchange and over-the-counter markets in metals. Without over-the-counter information, the LME may be limited in its ability to identify potentially abusive trading activity. The LME has therefore decided to implement the proposals in full.

19. Nevertheless, the LME recognises that Members may need to amend their existing terms of business with Clients or affiliates in order to ensure compliance with Regulation 12.1 and 12.1.4 of Part 2 of the Rulebook. In order to allow Members time to make such amendments, the provisions of Regulation 12.1 and 12.1.4 of Part 2 of the Rulebook, as referred to in paragraph 24 of Notice 20/182, shall take effect on 1 March 2021.

(b) Imposition of Requirements on Clients

20. Through amendments to Regulation 12.10 of Part 2 of the Rulebook, the LME proposed to introduce a power to direct Members to take action in respect of clients in certain circumstances. The LME has carefully considered the feedback in respect of these proposals and understands the concerns raised by a small number of Members: these have been addressed in detail in Appendix 4. Notwithstanding the concerns raised, the Exchange believes that it is important for it to have the ability to give directions to Members in respect of clients, including to cease to trade with a client if necessary, as a tool to prevent market abuse. The LME does not have any direct relationship with clients, and therefore cannot impose sanctions against such clients directly. However, clients trade

using the Exchange's facilities and receive LME Client Contracts, and therefore such trading falls within the broad purview of the Exchange, as well as other relevant regulatory authorities. In light of this, as referenced above, the Exchange believes that the introduction of such rules are necessary in order to ensure continued compliance with its regulatory obligations.

21. As described in **Appendix 4**, certain Members have asked questions about the process which the Exchange would follow in the event that it was required to exercise its powers under Regulation 12.10 of Part 2 of the Rulebook. The LME confirms that it will follow a carefully defined internal process in such circumstances. Like all of its internal processes, the LME does not intend to publish such process, but a description, in broad terms, is set out below.
- (a) The LME would identify the evidentiary basis for exercising the power (including the quality of the information available to it and the harm which the action is intended to address);
 - (b) Where necessary, the LME would obtain further relevant information using its information gathering powers (including under Regulation 12.10.3 of Part 2 of the Rulebook);
 - (c) The LME would consider the basis for exercising its power. This would include, without limitation, the possible adverse effects, and whether more appropriate, less intrusive remedies might exist. The LME would only use its power where it is likely to be effective;
 - (d) Unless it is not considered appropriate, the LME would generally attempt to notify affected Members of its intention to use the power, and to seek representations from those Members, giving a defined timescale in which to respond. The LME will take careful account of the feedback. Factors that might weigh against using the power include, without limitation, where to do so would result in the Member being in breach of any applicable law or regulatory requirement, or where to do so would result in the Member or another person being at risk of "tipping off" the subject of an investigation under MAR. Any factors weighing against application of the power(s) would be balanced against the severity of the harm that the proposed action is intended to address, and the reasonably foreseeable consequences for the Exchange, its market, Members and other indirect users, from failing to take action to contain the harm;
 - (e) In the event that the LME decides to proceed with the implementation of any of the proposed power(s), it would notify the affected Member(s) in writing, specifying its reasons for taking such action, and identifying the time from which the Member(s) should comply. In specifying such timeframe, due consideration should be given to what is a practicable and reasonable

timeframe within which the Member(s) will be able to act (having regard to any information they have provided in their feedback); and

- (f) Once it has effected its power, the LME would keep the continuing application of the power under review, and would withdraw the application of the power as soon as the LME considers that either: (i) the harm has been addressed; or (ii) the continuing application of the power is disproportionate to the harm.

22. Given the importance of the changes to ensure continued compliance with its regulatory obligations, the LME intends to implement the proposals to Regulation 12.10 of Part 2 of the Rulebook in full.

23. The LME recognises that Members may need to amend their existing terms of business with Clients in order to ensure compliance with Regulation 12.10 of Part 2 of the Rulebook. In order to allow Members to make such amendments, the provisions of Regulation 12.10 of Part 2 of the Rulebook shall not take effect until 1 March 2021.

(c) Information Sharing

24. The LME proposed certain amendments to Regulation 21.2 of Part 2 regarding information sharing with industry bodies. The LME has considered the relevant feedback carefully. The LME would only share information where strictly necessary and proportionate to do so, and would follow its own procedures and those of the relevant industry body. Moreover, as global efforts to combat market abuse increase, the ability for exchanges to share information for the purposes of identifying abusive behaviour on markets is a vital component of the global response. On these grounds, the LME has decided to implement the proposals as detailed in paragraphs 20 and 21 of Notice 20/182 in full.

Other Proposals

25. In respect of the proposals which did not receive any feedback from the market, the LME is implementing the amendments in full as set out in Notice 20/182.

Section C) Further Typographical Amendments to the Rulebook which do not require consultation

26. In Notice 19/311, the LME consulted on the removal on Regulation 2.6.3 of Part 2 to reflect the fact that a Category 5 Member is not permitted to be an Account Holder of LMEsword. The decision to make this change was confirmed in Notice 19/371.

27. The LME has now identified that the reference to Category 5 Member should also have been removed from Regulation 2.4.2 of Part 10. The correction of this

typographical error confirms the current position as consulted on in Notice 19/311 and as confirmed in Notice 19/371.

Timeline for implementation of Rulebook and Matching Rules changes

28. The revised Rulebook (excluding the miscellaneous changes relating to Provision of Information and Imposition of Requirements on Clients) and the revised Matching Rules shall take effect on 30 November 2020.
29. The Rulebook changes relating to Provision of Information and Imposition of Requirements on Clients shall take effect on 1 March 2021.

Matthew Chamberlain
Chief Executive Officer

cc: Board directors
User Committee
All metal committees
Ring Dealers Committee
Traded Options Committee
Warehousing Committee
Physical Market Committee

Appendix 1

Consultation Responses - PTT

#	Respondent	Rules Matching Rules Operational Question / /	Respondent question	LME comment
1.	Respondent #1	Rules	<p>Section 2.15.6 should be clarified to explain what the LME's expectations are in relation to Pre-Trade Communications, specifically around the words "unless it first agrees to initiate a Fixed Price Auction". The related LME PTT client information pack (link) goes further than this and states, on page 4, that "A member cannot make a firm quote to a client, that requires PTT, unless PTT has been achieved via the auction".</p>	<p>The Rule is essentially saying that a Member must not, in the inter-office market, make a bid or actionable indication of interest for a trade that would be required to be made transparent under Article 8 of MiFIR (a "PTT Order") otherwise than via the Fixed Price Auction. If a Pre-Trade Communication would amount to a bid / offer / indication of interest that would need to be made transparent (such as provision of a firm quote capable of acceptance by a Client), then a Member must initiate the Fixed Price Auction.</p> <p>The language in the Rule is intended to track the scope of the Article 8 requirements itself.</p> <p>The LME intends to revisit the PTT Client information pack to make this clearer.</p>
		Rules	<p>For the avoidance of doubt, when a Member such as [Respondent] trades with a Client or another Member in a principal capacity, we do not foresee any changes to the communications between [Respondent] and such Client and Member as a result of the PTT section in the LME Rulebook, based on the current drafting, given that if a trade is in-scope for PTT, an auction would trigger automatically upon the trade registration in LMEsmart. In a fast-paced environment, we do not believe it is necessary, as per the current rulebook</p>	<p>Members will need to make their own assessment of when, in the flow of communications with Clients, they will need to initiate the Fixed Price Auction in accordance with the Rule, as the LME will not have visibility of the pre-trade communications and whether such communications amount to PTT Orders.</p>

#	Respondent	Rules Matching Rules / Operational Question	Respondent question	LME comment
			wording, to agree on a trade-by-trade basis with a Client that a PTT auction will be initiated (as this will happen automatically).	
2.	Respondent #2	Matching Rules	<p>With respect to give-ups, while the LME has confirmed that only give-ups with a price type of "current" and the venue as "inter-office" will require PTT, can the LME clarify:</p> <ul style="list-style-type: none"> • If PTT has been satisfied prior to submission of a give-up to the LME, how can this be indicated? If not currently possible, when will an ability to denote such trades as having satisfied PTT be introduced? 	This cannot currently be indicated. At this stage the LME cannot confirm when such an ability may be introduced, but the LME will take this consideration on board for future development.
		Operational	It is understood that members can register to participate in an FPA via the LME website. Will a list of FPA participants be published by the LME? It is noted that for members who only intend to initiate auctions, no registration will be required, but would this preclude such members from appearing on any such list?	Registration is no longer required based on new requirements.
		Operational	Can the LME confirm that FPA auction participants will remain anonymous during the FPA (e.g. "AUC") or will member/client names be visible and to whom?	The LME can confirm that auction participants will remain anonymous during the FPA.
		Operational	What trading information fields will be visible to	<ul style="list-style-type: none"> • Auction start time • Auction ID • Contract • Contract Type

#	Respondent	Rules Matching Rules / Operational Question	Respondent question	LME comment
			participants during the course of an FPA?	<ul style="list-style-type: none"> • Price • Prompt • Volume
		Operational	Will members be able to pre-select members or participants that they do/do not wish to transact with when an FPA is initiated (i.e. preventing a participant's initiating matching buy order unexpectedly matching against a specific market participant's sell order in the event the initiating seller cancels their matching order)?	<p>No, Members will not be able to do so. In the event of an FPA, the orders initially entered by the Member will match due to the time priority of the FPA. This may only be interrupted if one of these orders are cancelled, and the other order is not removed.</p> <p>The LME would encourage Members to have a cancellation policy prepared for FPAs moving forward to prevent this.</p>
		Operational	Will the LME be hosting live training sessions/webinars in order to facilitate market education with respect to the final FPA system (in addition to testing windows) and will these be available to all members and market participants in good time ahead of launch?	<p>On 17th September 2020, the LME held a virtual PTT Testing, Technical and Operations forum. This opportunity allowed LME to present the current status of the project and also allow Members to ask questions.</p> <p>Please send any further questions to your Relationship Manager or the Business and Service Development team, rm@lme.com and bsd@lme.com respectively.</p>
		Operational / Rules	With respect to 2.15.8.d.iv.2, could the LME clarify (i) whether it will be possible to differentiate within the FPA an IOM PTT Initiating Pair for a PTT order for a Customer that is not a Member and a Customer that is a Member, (ii) which mechanism can be used to ensure the remaining side of the IOM PTT Initiating Pair may be matched only with a bid or offer of the same quantity as that of the remaining side, (iii) would "same quantity" exclude an accumulated quantity (i.e.	<p>(i) It is not possible to differentiate within the FPA an IOM PTT Initiating Pair for a PTT order for a Customer that is not a Member and a Customer that is a Member.</p> <p>Where an IOM PTT Initiating Pair for a PTT Order for a Customer that is not a Member is withdrawn, <u>both</u> IOM PTT Initiating Pairs should be removed, in accordance with Trading Regulation 2.15.8(c)(ii)(2).</p>

#	Respondent	Rules Matching Rules / Operational Question	Respondent question	LME comment
			the use of “a bid or offer” is deliberate)	<p>In order to better align the rules with this position, the LME has amended Trading Regulation 2.15.8(d)(iv) by deleting (2).</p> <p>(ii) There is no such mechanism.</p> <p>(iii) As noted above, in the case of an IOM PTT Initiating Pair that represents a Member-Client trade (where the Client is not a Member), if either side is cancelled, the other side will be automatically cancelled as this is considered an atomic pair. Therefore the suggested example is not a possibility within the FPA.</p> <p>The Rulebook amendment is set out in Appendix 2.</p>
		Operational	Can the LME explain, perhaps by way of example in its published “Information for LME members and their clients” PTT Information Pack or else by its published FAQ, the circumstances in which 2.15.8.d.iv.2 would apply, particularly in the context of Q28 of the FAQ (as published as of 02.09.2020). Cancellations and the circumstances within which these are permitted, as well as the consequences of such cancellations for FPA participants and initiators, is a key area of focus	<p>The initiating bid and offer, as well as any additional bids and offers, can be cancelled at any point during the auction window. Once processed, a cancellation message will be sent back to the Member. Cancelling one side will not cancel the other, both the bid and offer must be cancelled to ensure a trade is not accidentally agreed.</p> <p>In the event that a participating bid or offer is submitted outside of the auction window, a rejection message stating that the auction is closed will be sent back to the Member.</p>
		Matching Rules	Where an inter-office transaction is executed and the price of that transaction is contingent upon an LME reference price being published at a later time, would the LME consider this	<p>No, this transaction would not be considered out of scope for the purposes of PTT.</p> <p>Trades booked with price codes can trigger auctions, if executed in the IOM,</p>

#	Respondent	Rules Matching Rules Operational Question /	Respondent question	LME comment
			transaction to out of scope for the purposes of its FPA given PTT requirements require “current bids, offers or actionable expressions of interest” to be subject to PTT?	because they are actionable indications of interest.
		Matching Rules	Can it be confirmed that no amendments can be made to an initiative FPA matching pair (e.g. in the event of price error), only a cancellation can be affected?	This is correct. The process requires the terms of the FPA Matching Pair to be stable in order for the auction to work effectively.
3.	Respondent #3	Operational Rules Matching Rules /	We believe that the scope of transactions eligible for PTT could be further clarified. Under the definitions in the LME Rulebook, “Inter-Office Orders” refer to an actionable indication of interest. We would like to see the definition of actionable indication of interest further defined so that it’s clear that limit orders, such as stop loss orders, take profit orders and TWAP orders are included.	<p>Members should determine what is an “actionable indication of interest” by reference to the MiFID II meaning of the term. The LME has chosen not to be prescriptive by further articulating what activities of a Member will fall within such term.</p> <p>Each Member will need to consider its own forms of message-flow with Customers to determine whether any particular communication may amount to a bid / offer / actionable indication of interest.</p> <p>From a Member’s perspective, it may be preferable that the types of communications with Clients listed in the question not amount to actionable indications of interest, but are instead treated merely instructions to submit an order - otherwise they would trigger an auction. It is up to Members to structure their dealings with their Clients accordingly.</p>
		Other	We also would like to ensure that the PTT requirements do not conflict with our Best Execution and Treating Clients Fairly obligations in respect of limit orders. Can the LME confirm that	The LME expects Members to address and manage the regulatory impact of this arrangement through their own internal processes and practices.

#	Respondent	Rules Matching Rules Operational Question / /	Respondent question	LME comment
			Members should continue to work limit order fills in the same way as they currently do and clients cannot be disadvantaged by the 30 second additional delay of the Fixed Price Auction?	
		Operational Rules /	Given the FPA can only be initiated once both clearing members input "halves" into the matching engine, we see the risk of significant delays in starting the FPA arising from delays in one side (or both) Members inputting their trade. The current 10 minute matching rule probably provides some guidance to the expected time taken for both sides to achieve this. We feel this could adversely impact the treatment of client instructions which could take up to 10 mins (and 30 seconds) to be filled under current LME Rules for in scope RFQs/orders. This period of waiting could be materially longer under a Giveup Executor trade where the client is required to instruct their own clearer before they can input. Under this scenario we would have the situation where a client must instruct their clearer to enter a trade into matching that hasn't been filled yet. Such trades have historically taken longer to be entered by both sides into the matching engine.	<p>The 10 minute submission window is no different from the current requirement for Agreed Trades made in the IOM. The LME notes that the UNA account is a facility made available to allow allocation of the trade within the required time-frame, and to then later facilitate give-up requirements.</p> <p>By way of reminder - the governance prescribed in the Rulebook is as follows: where two Clearing Members agree to submit their respective halves into the Matching System (which is an "Agreed Trade" pursuant to Trading Regulation 2.2.3(b)), this results in a Contingent Agreement to Trade under Trading Regulation 2.2.3, which obliges each Clearing Member to submit its trade half to the Matching System within the 10 minute timeframe (pursuant to Trading Regulation 3.5).</p>

#	Respondent	Rules Matching Rules Operational Question / /	Respondent question	LME comment
		Operational	Initiation of Fixed Price Auction. We currently only have Clearing operations staff with access to entering trade halves in to LMEsmart (for data security purposes), thereby initiating a FPA should the transaction be PTT eligible. We are concerned that there could be a further delay and increased operational risk due to the required transmission of information between sales or trading staff and the operations team.	This is an internal operational issue for Members. It is for individual Members to determine how they manage this.
4.	Respondent #4	Rules	Under Regulation 2.15.6 of Part 3, Members are prohibited from making a PTT Order in the course of Pre-Trade Communications unless they first agree to initiate a Fixed Price Auction. Pursuant to Regulation 2.2.3(b), each Agreed Trade shall constitute the agreement of the parties to Pre-Trade Communications to initiate a Fixed Price Auction. Does this mean that members are automatically treated as having complied with the requirement to agree to initiate a Fixed Price Auction under Regulation 2.15.6 by making an Agreed Trade?	<p>The term Agreed Trade is used in the Rulebook for a number of purposes, including (in the inter-office market) to define the particulars of a potential transaction to be input into the Matching System pursuant to a Contingent Agreement to Trade.</p> <p>Regulation 2.2.3(b) says that where parties to Pre-Trade Communications for a PTT Order agree to initiate a Fixed Price Auction, such agreement constitutes an “Agreed Trade” for the purposes of the Rules. Regulation 2.2.3 goes on to say that such an agreement gives rise to a Contingent Agreement to Trade pursuant to which the parties agree to input the details of the IOM PTT Initiating Pair into the Matching System in order to initiate the Fixed Price Auction.</p> <p>Regulation 2.15.6 is simply saying that Members must not make a PTT Order (i.e. an order required to be made transparent under MiFID II) without first agreeing to initiate a Fixed Price Auction. Regulation 2.2.3(b) then specifies that upon such agreement, an Agreed Trade arises pursuant to which</p>

#	Respondent	Rules Matching Rules Operational Question / /	Respondent question	LME comment
				<p>the parties are obliged by a Contingent Agreement to Trade to submit the particulars of the proposed trade to the Matching System. The basis on which Members shall comply with this requirement is then further articulated in Regulations 2.15.7 and 2.15.8.</p> <p>So, while technically, Regulation 2.15.6 is complied with by agreeing to initiate a Fixed Price Auction (such agreement being defined to mean an Agreed Trade), this then triggers other obligations that the Member must satisfy regarding the initiation of the Fixed Price Auction itself.</p>
		Rules	<p>Under Regulation 2.15.6 of Part 3, the requirement to agree to initiate a Fixed Price Auction apply where a Member enters into a pre-execution communication with a Customer or receives a request for a quote from a Customer. "Customer" is defined as "a person that <u>initiates</u> pre-trade communications <u>with a Member</u>, and/or requests a quote from a Member" and includes other Members and Clients. Therefore, if a Member has initiated a pre-trade communication with a Client (for example by making an "actionable indication of interest"), any Agreed Trades resulting from such communications would not be subject to a Fixed Price Auction. Is this correct?</p>	<p>2.15.6(a) is intended to capture pre-execution discussions with Customers who are other Members. 2.15.6(b) is intended to capture requests for quotes from Customers who are Clients. The LME notes that the question is asking whether there may be a scenario where the Member approaches a Client with pre-execution communications (and not where the Client has approached it for a quote).</p> <p>This is a possible scenario. Accordingly, to ensure that pre-execution communications initiated by the Member (which is the intention of 2.15.6(a)) are captured, the definition of "Customer" has been amended in the revised Rulebook to read "<u>a person that initiates pre-trade communications with a Member and/or requests a quote from a Member, or a person in respect of which a Member initiates pre-trade communications, and including:</u> (a) another Member; and/or (b) a Client";</p> <p>This Rulebook amendment is set out in Appendix 2.</p>

#	Respondent	Rules Matching Rules Operational Question /	Respondent question	LME comment
		Operational	Can you confirm whether the PTT requirements also apply to “orders”, for example “at market” and “limit” orders? An example of an “at market” order would be where a client communicates to us e.g. “please can I buy 1 lot CA 3M at market”. We see CA trading at \$6,700 on select and therefore sell at \$6,700 to the client. Do you treat these as “actionable indications of interest”?	It is for the Member to determine whether an order amounts to a bid / offer / actionable indication of interest (requiring the commencement of a FPA), or whether it is essentially a “pre-execution communication”. If the order is not actionable, then the LME would consider it to effectively comprise part of the pre-trade negotiations. In the example provided, essentially, the market is \$6700 and so in order to act on the order, the Member would agree to commence an auction, based on this price, which is initiated via a Cross at this price. It is filled when the trade is matched and cleared at the end of the auction. This needs to be explained to the Client, as the Member sees fit. However, if they execute this order on LMEselect then PTT is achieved.
		Rules	What is the purpose of Regulation 2.15.6(b) or Part 3? The scenario set out therein already falls within Regulation 2.15.6(a), does it not?	<p>The two paragraphs are trying to articulate the scenarios in which Pre-Trade Communications can arise. These include:</p> <ul style="list-style-type: none"> - (a) The Member entering into discussions for a principal trade with another Member in the IOM (i.e. Member to Member trades, where the second Member is treated as the Customer of the first Member) - (b) The Member receives a request for a quote for a trade from a Customer (that is, which could include a Client that is either a Member or not a Member) that is for execution in the IOM. <p>The LME acknowledges that the drafting could have been clearer here and has made some amendments to these provisions and to the definition of “Customer”.</p>

#	Respondent	Rules Matching Rules Operational Question /	Respondent question	LME comment
				These Rulebook amendments are set out in Appendix 2.
		Rules	The communications described in Regulation 2.15.6 of Part 3 could take place between a Member and its Client. However, in these circumstances the Member would only be required to input its own PTT Order into the Matching System under Regulation 2.15.7(a)(i). Is this correct?	<p>Where the Client is another Member, that other Member would be responsible for inputting its IOM PTT Initiating Pair information into the Matching System, pursuant to the Contingent Agreement to Trade – as envisaged by Regulation 2.15.7(a)(i).</p> <p>Where the Client is not a Member, the Member would input both IOM PTT Initiating Pairs into the Matching System – as envisaged by Regulation 2.15.7(b)(ii).</p>
		Rules	Should “pre-execution communications” in Regulation 2.15.6(a) instead read “pre-trade communications”?	The meaning of “pre-execution communications” is clear – it is defined as “communications for the purpose of discerning interest in the execution of a trade”. It is distinguished from the separately defined term “Pre-Trade Communications”, which is broader and is defined by reference to the scenarios listed in Trading Regulation 2.15.6 (a), (b) and (c).
		Rules	Regulation 2.15.7(a)(ii) refers to a capitalised term “Cross” but this term is not defined in the Rulebook – should it be?	<p>The LME has noted this – the term “Cross” is used within the Rules, but has been absent a definition for some time. In order to remedy this, a definition of “Cross” has been added, as follows:</p> <p><i>“A trade between a Member and its Client, the effect of which is to ensure that a Contract is recorded in the Member’s client account at the Clearing House that corresponds to a Client Contract between the Member and such Client, notwithstanding any other Contracts recorded to the client or house accounts of the</i></p>

#	Respondent	Rules Matching Rules Operational Question /	Respondent question	LME comment
				<p data-bbox="1082 506 1461 568"><i>Member upon Execution of the trade;</i></p> <p data-bbox="986 595 1461 658">This Rulebook amendment is set out in Appendix 2.</p>

Appendix 2

Rulebook extract – redline against version consulted on – PTT

1. Definitions

<u>"Cross"</u>	<u>A trade between a Member and its Client, the effect of which is to ensure that a Contract is recorded in the Member's client account at the Clearing House that corresponds to a Client Contract between the Member and such Client, notwithstanding any other Contracts recorded to the client or house accounts of the Member upon Execution of the trade;</u>
"Customer"	a person that initiates pre-trade communications with a Member, and/or requests a quote from a Member, <u>or a person in respect of which a Member initiates pre-trade communications,</u> and including: (1) another Member; or (2) a Client;
"Inter-Office Order"	a bid or offer or actionable indication of interest for a trade that is made in the inter-office market;
"IOM PTT Initiating Pair"	has the meaning set out in Regulation 2.15.8 of the Trading Regulations;
"MiFID II Transparency RTS"	Commission Delegated Regulation (EU) 2017/583 of 14 July 2016 supplementing Regulation (EU) No 600/2014 of the European Parliament and of the Council with regard to regulatory technical standards on transparency requirements for trading venues and investment firms in respect of bonds, structured finance products, emission allowances and derivatives;
"Out of Scope Order"	an Inter-Office Order that is not required to be made transparent

	pursuant to the Pre-Trade Transparency Requirements, as identified in accordance with Regulation 2.15.3 of the Trading Regulations;
"Pre-Trade Communication"	has the meaning set out in Regulation 2.15.6 of the Trading Regulations;
"Pre-Trade Transparency Requirements"	the requirements, under Article 8 of MiFIR and any rules and guidance of the FCA implementing such requirements with which the Exchange is required to comply, for a market operator to make public current bids and offer prices and the depth of trading interests at prices advertised through its system;
"PTT Exempt Order"	an Inter-Office Order that is not required to be publicised in accordance with the Pre-Trade Transparency Requirements, due to the application of: (1) a PTT Waiver; or (2) the PTT Hedging Exemption;
"PTT Hedging Exemption"	has the meaning set out in Regulation 2.15.5 of the Trading Regulations;
"PTT Order"	an Inter-Office Order that is not an Out of Scope Order or a PTT Exempt Order;
"PTT Waiver"	a waiver from the application of the Pre-Trade Transparency Requirements, granted to the Exchange by a competent regulatory authority;

2. Membership Regulations

2.15 Pre-Trade Transparency for inter-office market trades: Fixed Price Auction

2.15.1 A Member must not make a PTT Order otherwise than pursuant to the initiation of a Fixed Price Auction, in accordance with the requirements of Regulation 2.15.8 below.

- 2.15.2 An Out of Scope Order or a PTT Exempt Order shall not be subject to the Pre-Trade Transparency Requirements and shall not be required to be made transparent pursuant to a Fixed Price Auction.

Out of Scope Orders

- 2.15.3 The Exchange shall, from time to time, specify in the Matching Rules and/or Notices the transaction-types for which an order for a trade shall comprise an Out of Scope Order.

PTT Exempt Orders

- 2.15.4 The Exchange shall specify in Administrative Procedures the PTT Waivers in force from time to time, and the circumstances in which an Inter-Office Order shall fall within a PTT Waiver. The Exchange shall amend such Administrative Procedures in the event that any PTT Waiver is withdrawn or otherwise ceases to be applicable to exempt any types of Inter-Office Order from the Pre-Trade Transparency Requirements. The Matching System shall determine whether an Agreed Trade submitted the Matching System comprises one or more Inter-Office Orders that is subject to a PTT Waiver.

- 2.15.5 An Inter-Office Order shall fall within the "**PTT Hedging Exemption**" where:
- (a) the resulting trade is to discharge an order from a "non-financial counterparty" within the meaning of Article 2(9) of EMIR; and
 - (b) such trade is objectively measurable as reducing risks directly relating to the commercial activity or treasury financing activity of the non-financial counterparty.

A Member seeking to rely on the PTT Hedging Exemption shall be responsible for determining whether the Inter-Office Order satisfies the requirements set out in (a) and (b) above and for ensuring that the Agreed Trade is identified as involving an Inter-Office Order that is subject to the PTT Hedging Exemption when the particulars of the Agreed Trade are submitted to the Matching System.

Pre-Trade Communications

- 2.15.6 In the event that a Member:
- (a) enters into pre-execution communications with a Customer [that is a Member](#), in relation to a trade for the Member's own account in the inter-office market; or
 - (b) [enters into pre-execution communications with a Customer that is not a Member, or](#) receives a request for a quote from [such](#) a Customer for a trade that is not an order that is received for execution in the Ring or on LME Select pursuant to an order-routing facility and governed by Trading Regulations 2.7 or 12.9 to 12.15; or

- (c) is a Registered Intermediating Broker and receives a request for a quote from a Customer for a trade,

(such pre-trade communications or request for a quote, pursuant to (a) or (b) above, being a "**Pre-Trade Communications**"), then such Member shall not, in the course of such Pre-Trade Communications:

- (i) make a PTT Order; or
- (ii) in the case of a Registered Intermediary Broker, submit a PTT Order to the Matching System,

unless it first agrees to (or, in the case of a RIB, agrees with both of its Clients to) initiate a Fixed Price Auction, in accordance with the process set out in Regulation 2.15.8 below. For the purposes of this Rule 2.15, "**pre-execution communications**" shall mean communications for the purpose of discerning interest in the execution of a trade in a Contract in the inter-office market, prior to the agreement of an Agreed Trade.

2.15.7 In the event that a Member agrees to initiate a Fixed Price Auction:

- (a) except where the Member is a Registered Intermediary Broker, a Contingent Agreement to Trade shall arise for the purpose of determining the particulars of the proposed transaction that shall be submitted to the Matching System, such that:
 - (i) in the circumstances described in Trading Regulation 2.15.6(a) above, the Member shall input its own PTT Order into the Matching System in accordance with its obligations under the resulting Contingent Agreement to Trade; or
 - (ii) in the circumstances described in Trading Regulation 2.15.6(b) above, the Member shall input two PTT Orders into the Matching System (representing both sides to an Agreed Trade that would be required to effect a Cross), in accordance with its obligations under the resulting Contingent Agreement to Trade; or
- (b) where the Member is a Registered Intermediary Broker (in the circumstances described in Trading Regulation 2.15.6(c) above), the RIB shall input two matching PTT Orders into the Matching System RIB Screen, subject that such PTT Orders shall not be treated as an IOM PTT Initiating Pair for the purposes of initiating a Fixed Price Auction until the Clearing Member nominated by each Client has reviewed the particulars and approved the proposed Agreed Trade in accordance with Trading Regulation 2.5.2(c). Upon the approval of the proposed Agreed Trade by such Clearing Member(s), the PTT Orders shall be treated as received by the Matching System and shall be capable of comprising an IOM PTT Initiating Pair for the purposes of Trading Regulation 2.15.8 below.

2.15.8 The Fixed Price Auction

The following process must be applied where matching PTT Orders (an "**IOM PTT Initiating Pair**") are received by the Matching System pursuant to Regulation 2.15.7 above.

- (a) Following confirmation by the Matching System that it is in receipt of an IOM PTT Initiating Pair, the Exchange shall publish details that a public auction is to take effect and specifying:
 - (i) the time of commencement of such Fixed Price Auction; and
 - (ii) the quantity (number of lots) represented by the IOM PTT Initiating Pair; and
 - (iii) the parameters within which such auction shall be conducted, which must include:
 - (1) the type of Contract to which the IOM PTT Initiating Pair relates;
 - (2) the underlying metal, Precious Metal, Index or Cash-Settled Future Index of the IOM PTT Initiating Pair; and
 - (3) the transaction price (or, in the case of a Traded Option, the premium) and Prompt Date (or, in the case of a Traded Option, the maturity or declaration month and Strike Price),

(such parameters being the "**Fixed Parameters**").
- (b) The Fixed Price Auction shall remain in effect during the Auction Window.
- (c) During the Fixed Price Auction:
 - (i) any Member (other than a RIB) with access to the Matching System may submit to the Matching System bids or offers for Contracts, at the Fixed Parameters, and for such quantity as such Member may determine, and including all relevant particulars that the Member would be required to submit in the event that the Member were submitting an Agreed Trade in respect of such Fixed Parameters;
 - (ii) In the case of:
 - (1) an IOM PTT Initiating Pair resulting from Pre-Trade Communications falling within Regulation 2.15.6(a) above either or both of the Members that submitted the IOM PTT Initiating Pair may remove their side of IOM PTT Initiating Pair from the Matching System; and

- (2) an IOM PTT Initiating Pair resulting from Pre-Trade Communications within Regulation 2.15.7(b) above, the Member that input both sides of the IOM PTT Initiating Pair may withdraw such IOM PTT Initiating Pair from the Matching System by withdrawing both sides of the IOM PTT Initiating Pair,

and for the avoidance of doubt, the withdrawal of one or both sides of the IOM PTT Initiating Pair shall not prevent the continuation of the Fixed Price Auction and/or the agreement of Agreed Trades as a consequence of the submission by Members of bids and offers to such Fixed Price Auction, in accordance with Regulation 2.15.8(d) below; and

- (iii) any Member that has submitted a bid or offer pursuant to (i) above may withdraw its bid or offer from the Matching System prior to the expiry of the Auction Window.

- (d) Upon the completion of the Fixed Price Auction the bids and offers received into the Matching System during the Fixed Price Auction, and remaining within the Matching System at the expiry of the Auction Window, shall be matched on a time priority basis (by reference to the time entered into the Matching System), such that:

- (i) in the event that both sides of the IOM PTT Initiating Pair remain in the Matching System, such IOM PTT Initiating Pair shall comprise an Agreed Trade and provided that such Agreed Trade satisfies the requirements of Trading Regulation 2.5.1(d), such Agreed Trade shall be Executed in accordance with Trading Regulation 2.5.1;

- (ii) in the event that either side of the IOM PTT Initiating Pair has been removed during the Fixed Price Auction:

- (1) subject to (iv) below, any remaining side of such IOM PTT Initiating Pair shall be matched with a corresponding matching bid or offer submitted to the Fixed Price Auction, that is first in priority to any other matching bid or offer submitted to the Fixed Price Auction, resulting in an Agreed Trade; and

- (2) provided that the resulting Agreed Trade satisfies the requirements of the Trading Regulation 2.5.1(d), such Agreed Trade shall be Executed in accordance with Trading Regulation 2.5.1;

- (iii) each other matching pair of bids and offers received during the Fixed Price Auction, matched on the basis of a time priority, shall comprise an Agreed Trade and:

- (1) provided that such Agreed Trade satisfies the requirements of the Trading Regulation 2.5.1(d), such Agreed Trade shall be Executed in accordance with Trading Regulation 2.5.1; and
 - (2) such Execution shall occur within the Matching System without any requirement for the parties to the Agreed Trade to re-submit the particulars of the Agreed Trade to the Matching System;
- (iv) matching pursuant to (ii) or (iii) shall be determined on the basis of the Fixed Parameters, and shall not be dependent on a matching of bids and offers having the same quantity, ~~provided~~such that:
- (1) (in the case of matching pursuant to (ii)) ~~where the IOM PTT Initiating Pair represented PTT Orders for an Agreed Trade between two Members,)),~~ the remaining side of the IOM PTT Initiating Pair may be matched with a bid or offer of a different quantity; and
 - ~~(2) (in the case of matching pursuant to (ii)) where the IOM PTT Initiating Pair represented a PTT Order for a Customer that is not a Member, the remaining side of the IOM PTT Initiating Pair may only be matched with a bid or offer for the same quantity as that of such remaining side; and~~
 - ~~(3)~~(2) ~~for any matches other than those to which (2) applies,~~ in the case of a matching of bids and offers having differing quantities, the resulting Agreed Trade shall be for a quantity equal to the smaller side of the matching pair.
- (e) For the avoidance of doubt, where any Agreed Trade arises from a bid or offer submitted, by a Member, to the Matching System pursuant to a Fixed Price Auction:
- (i) such Agreed Trade shall be treated as having been made in the inter-office market for the purpose of these Rules; and
 - (ii) the requirement for a Contingent Agreement to Trade shall be deemed to have been discharged at the point that the Member submitted its bid or offer to the Matching System, on the basis that all information that a Member would be required to submit pursuant to a Contingent Agreement to Trade should already have been submitted by such Member upon submitting its bid to the Fixed Price Auction in accordance with Trading Regulation 2.15.8(c)(i).

A Member must ensure that, in addition to its other record-keeping obligations under these Rules (including Trading Regulation 3.7), it complies with the record keeping requirements set out below.

- (a) Each Member that seeks to rely upon the PTT Hedging Exemption in respect of any Inter-Office Order must maintain a record of the basis on which the Member has determined whether the order would fall within the scope of the PTT Hedging Exemption.
- (b) The Member must provide to the Exchange, on request, any records maintained by the Member in accordance with (a) above.

2.15.10 **Administrative Procedures**

- (a) The Exchange shall specify in Administrative Procedures the PTT Waivers applicable to trades made on the Exchange from time to time.
- (b) Each Member shall consult with, and comply with, Administrative Procedures where and to the extent that such Administrative Procedures specify:
 - (i) how the requirements of this Regulation 2.15 shall be applied to specific transaction arrangements;
 - (ii) how the PTT Waivers and/or the PTT Hedging Exemption shall be applied to specific transaction arrangements; and
 - (iii) any additional operational requirements for trades falling within this Regulation 2.15 or otherwise to facilitate compliance with the MiFID II requirements on pre-trade transparency.

Appendix 3

Revised Matching Rules (clean)

Matching Rules

Defined Terms

1. Capitalised terms not otherwise defined herein shall have the meaning ascribed to them in the Rules and Regulations of the LME (the “**LME Rulebook**”). These matching rules form part of the Administrative Procedures that may be adopted by the Exchange (also referred to as the “**LME**”) from time to time in accordance with the LME Rulebook.

General Information

2. All business transacted on the Exchange is subject to price validation, whether that be on an order-by-order basis for business agreed and Executed on LMEselect, or trade-by-trade for business agreed non-electronically (i.e. on the Ring and inter-office market). For the avoidance of doubt, and as set out in Trading Regulation 2, agreement of a trade results in an Agreed Trade that is “Executed”, provided that the Acceptance Criteria are satisfied. The point at which Execution occurs on each of the LME’s Execution Venues is set out more fully in Trading Regulation 2.
3. Where an order or trade fails any pre-execution check, including the price validation check, Regulation 3.10.1 of Part 3 of the Rules requires Members to follow the relevant Administrative Procedure in relation to the correction of “**Failed Checks**” (meaning Pre-Execution Checks set out at Regulation 2.8.1 of Part 3 of the Rules that have not been met, and, in respect of Ring trades, the price validation check undertaken on entry of the trade into the Matching System). Where an order or trade fails the price validation check, Members are required to contact the Exchange to explain the rationale as to the price of the rejected order or trade. In relation to the correction of any Failed Checks, the Member may be required to provide such additional information as the Exchange deems necessary and appropriate in determining whether the relevant order or trade should be permitted to be re-submitted in its original form. Members should note that where re-submission has been permitted, there may be a requirement to post additional collateral to the Clearing House, and Members must comply with such requirements.



4. The hours on each Business Day during which the Matching System is open and able to receive information regarding Agreed Trades (being the "Opening Hours" for the purpose of the LME Rulebook) are 01:00 to 20:00 London time in respect of trades for the LME Base Service, and 01:00 to 20:15 London time in respect of trades for the LMEprecious Service. Requests for extensions to either the relevant TOM matching deadline (or the trading day +1 matching deadline in the case of LMEprecious, i.e. the deadline for the T+1 Prompt Date as defined in Part 13 of the Rules), or the London inter-office trade input deadline will only be granted in exceptional circumstances. Requests must be made to LME Post-Trade Operations no later than 15 minutes prior to the relevant deadline (email: posttradeoperations@lme.com; tel. no. +44 (0)20 7113 8201). The relevant deadlines are as follows:

LME Base Service

TOM Trading Deadline: 12:30 London time
TOM Matching Deadline: 13:30 London time
Trade Input Deadline: 20:00 London time

LMEprecious Service

Trading day +1 (i.e. T+1 Prompt Date, as defined in Part 13 of the Rules)
Trading Deadline: 16:00 London time

Trading day +1 (i.e. T+1 Prompt Date, as defined in Part 13 of the Rules)
Matching Deadline: 17:00 London time

Trade Input Deadline: 20:15 London time

5. The trading hours for the agreement of trades are as follows (all times are London time):

	LME Base Service	LMEprecious Service
Ring	See the "Trading Time and Dates" section of the www.lme.com	n/a
LME Select	01:00 – 19:00	01:00 – 20:00



Inter-office	24 hours	24 hours
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6. For the LME to fulfil its regulatory reporting obligations, the Matching System will connect to LMEselect at 01:00. Members should therefore give consideration as to when they connect to the Matching System. In order to receive all trade messaging Members will be required to login to the system in advance of the 01:00 opening. Should members choose to login after the open they will be required to perform a Trade Mass Status Request whereby only the current state of the transaction is captured.
7. Members are responsible for the input of an Agreed Trade and all relevant particulars of an Agreed Trade into the Matching System within the timescales set out in Regulation 3.5 of the Trading Regulations, subject that registration of Agreed Trade halves agreed during Asian business hours (including those arranged by a Registered Intermediating Broker) must be submitted to the Matching System by 08:30. Members are not obligated to submit Agreed Trade halves from 01:00, when the Matching System opens.
8. Members must retain a full audit trail for all orders submitted to LME Select, all Agreed Trades agreed non-electronically, and all post-trade operations. The audit trail should contain sufficient information to demonstrate a complete history of the transaction, if requested by the Exchange. Where Members have Executed transactions in currencies other than US Dollars, the audit trail for these transactions must include the relevant US Dollars price and the FX rate used to calculate the non-US Dollars price. In addition, Members must ensure that they have appropriate documentation in place with their Clients prior to arranging, agreeing or Executing orders received from them (e.g. give-up agreement etc.).
9. Index Contracts, Ferrous Futures LMEmini Contracts, Monthly Average Futures, Premium Contracts and LMEprecious Futures may only be executed in US Dollars. All other contracts may be executed in US Dollars, Euro, Japanese Yen or Pounds Sterling.
10. Agreed trades that are agreed as Carries should be entered as such in to the Matching System and the audit trail for the transaction should clearly demonstrate whether a trade is an outright or a Carry. When submitting Carry



trades into the Matching System, Members must follow market convention and enter the near leg first followed by all other legs in chronological prompt date order.

11. Members are advised that where there is a requirement to adjust (Reversal/Correction) a previously registered Member to Member Carry trade when the near leg has expired all subsequent legs should be entered to the Matching System as outright trades. Where a Member to Client Carry trade requires adjustment, only the individual leg that requires adjustment need be reversed and then corrected, where appropriate.
12. Members must not use the LME Base Service or LMEprecious Service for any abusive practice which may include, but is not limited to, the avoidance or evasion of the Rules or any Administrative Procedure.
13. Members are reminded that, when entering trades to the Matching System they must use their own order/trade data and not rely upon that entered by the other party to the trade.

Trade Categories and Post Trade Functions

14. The following trade categories will apply for all business that is agreed non-electronically ¹:
 - **Normal** – is used to enter new market trades Executed on the Ring, Basis Ring (as described in paragraph 16 below), or agreed in the inter-office market (including trades agreed via a Fixed Price Auction) or via the Matching System. This trade category should also be used when adjusting trades Executed in LME Select following the application of the Lending Rules.
 - **Give-Up Executor/Give-Up Clearer** – is used to effect the give-up of a transaction to another Clearing Member.
 - **OTC Bring-On** – is used to convert a previously executed over-the-counter contract to a Cleared Contract, where the intention is to bring the

¹ Business Executed via LME Select will always have a Trade Category of Normal.



transaction on-Exchange. Further information regarding the OTC Bring-On trade category is contained in the section headed “OTC Bring-Ons and OTC Backloading” below.

- **OTC Take Off** – is used to convert an on-Exchange Contract to an over-the-counter contract.
- **Financing** – is used to enter a trade that relates to financing transactions.
- **Exception Reportable** – this trade category can only be used with the prior approval of the Exchange. Members must contact the LME Post Trade Operations team (posttradeoperations@lme.com, phone no: +44 (0)20 7113 8201) in advance of submitting an Exception transaction to the Matching System, providing details and the rationale for the transaction. This category can only be used in order to submit a trade to the Matching System that has been identified by the Member as a reportable transaction under MiFID II.
- **Exception Non-Reportable** – this trade category can only be used with the prior approval of the Exchange. Members must contact the LME Post Trade Operations team (posttradeoperations@lme.com, phone no: +44 (0)20 7113 8201) in advance of submitting an Exception transaction to the Matching System, providing details and the rationale for the transaction. This category can only be used in order to submit a trade to the Matching System that has been identified by the Member as a non-reportable transaction under MiFID II. An example of this would be the submission of a transaction derived from an option expiry.

Post Trade Functions

- **Transfer** – is used to effect the move of a registered single trade or group of trades (“a position”) between Members or alternatively within a Member’s own client account structure.

Price Types

15. The following price types will apply for all business that is agreed non-



electronically²:

- **Current** – must be used to record Agreed Trades arranged at current market prices and transactions executed at current market process that are subsequently averaged for entry to the Matching System on TD+0 or TD+1.
- **Historic** – must be used to record all other transactions (e.g. OTC Bring- Ons, transfers (as applicable) and historic price carries) from TD+2 onwards.

Because of the requirement to match trades within 10 minutes of Agreement of an Agreed Trade (see Regulation 3.5 Part 3, of the LME Rules), the “Average Price” price type is no longer available, as trades must not be held back from submission to matching. However, Members may create a single average price transaction for a single Client within their own systems, provided a full audit trail is maintained of any such actions (see paragraph 34 below).

Venue Codes

16. The following venue codes will apply:

- **Select** – for all electronically Executed business.
- **Ring** – for all business Executed in the Ring.
- **Basis Ring** – for any trade agreed between a Category 1 Member and their Client pursuant to an order placed with that Category 1 Member, that is filled during the relevant Ring or kerb session, basis a price(s) discovered in the Ring by Category 1 Members through trading or quoting.
- **Inter-office** – for all other business agreed non-electronically, including trades arranged by RIBs or Fixed Price Auction, and which is Executed pursuant to confirmation by the Matching System.

Short Price Codes

² Business Executed via LME Select will always have a price type of Current.



17. The following price codes will apply:

- **Settlement Price (“S”) Code** – where the price for an outright trade or the near leg of a Carry is based upon that day’s Settlement Price with other Carry leg(s) priced relative to the first leg plus or minus an agreed premium or discount.
- **Closing Price (“C”) Code** – where the price is based upon that day’s Closing Price for the relevant Prompt Date for each outright trade or Carry leg and may include plus or minus an agreed premium or discount.
- **Basis the Closing Price (“B”) Code** – where the pricing basis for the near leg of a Carry is the Closing Price for the relevant Prompt Date and the other leg(s) is priced relative to the first leg plus or minus an agreed premium or discount.
- **Yesterday’s Settlement Price (“YS”) Code** – where the price is the previous Business Day’s relevant Settlement Price.
- **Valuation Price (“V”) Code** – where the price is the previous Business Day’s relevant Closing Price.
- **Mean Cash (“MC”) Code** – where the price is the mean of the bid/offer spread for the relevant Cash prompt based on the Official Price.
- **Mean 3 Month (“M3”) Code** – where the price is the mean of the bid/offer spread for the relevant 3 Month prompt based on the Official Price.

18. In all cases where a short price code has been used, and once the relevant absolute value has been made available, the Matching System will substitute the correct price for each code, and calculate absolute values for all leg(s) containing a price differential. For short price codes YS and V, the substitution of the absolute price will occur automatically upon submission.



Trade Submission Deadlines

19. Regulation 3.5 of Part 3, of the Rules sets out the deadlines for matching Contracts.
20. Where Client Contracts have been agreed after 19:50 London time with respect to LME Base Contracts, and 20:05 for LMEprecious Contracts (i.e. 10 minutes prior to the relevant close of the Matching System), then the registration of these transactions must be completed by 08:30 London time on the following Business Day including those transactions arranged by RIBs.
21. Regulation 3.5.1(d) of Part 3 of the Rules states that business Executed in the Ring must be submitted within 10 minutes of the close of the Ring trading- period in which the Agreed Trade was Executed. Where Agreed Trades have been agreed, either in the Ring or in the inter-office market, using either the Official, Mean or Closing Price as the basis for the trade price, then the relevant Ring time code should be entered, but the matching deadline will be 10 minutes after all relevant data has been made available by the Exchange (i.e. after any objection period, and once the Official Prices/Closing Prices have been declared final).
22. As set out in Rule 3.5.1 of Part 3 of the Rulebook, RIBs are responsible for registered Agreed Trades in the Matching System within 10 minutes of arranging the trade in the inter-office market. Where a RIB has registered an Agreed Trade in the Matching System, the Clearing Member must approve or reject the Agreed Trade within the Matching System within 10 minutes of such registration. For the avoidance of doubt, where the Agreed Trade comprises a PTT Order, the time of "arrangement" shall be the time from which the RIB has Pre-Trade Communications in respect of two Clients that would, subject to acceptance by the Clearing Member(s), comprise an IOM PTT Initiating Pair.

Trade Times

23. Depending on the venue, the Trade Time field must be completed as follows:
 - **Select** – this field is automatically populated upon the matching of relevant orders, no further action is required by Members.
 - **Ring** – either “R 1-3” if Executed during a Ring session or “K 1-2” if Executed during a kerb session.



- **Basis Ring** – either “C 1-3” if agreed during a Ring session or “D 1-2” if agreed during a kerb session.
- **Interoffice** – the time at which the trade was agreed³, and must be entered as HH:MM:SS.

Accounts

24. The Matching System supports the following accounts:

- **H** – House, for all proprietary, non-Client business;
- **U** – Unallocated, sub-account of H, for all business that is to be given-up to another Clearing Member even where the details of the Clearing Member are known;
- **C** – Client, for all business allocated to a net omnibus segregated Client account (OSA);
- **G** – Client, for all business allocated to a gross omnibus segregated Client account (GOSA);
- **S** – Client, for all business allocated to an individual segregated Client account (ISA); and
- **X** – Client OSA, for those transactions for which an invalid ISA, OSA or GOSA identifier has been submitted.

25. The Client Code field (“Cust”) is a mandatory entry field for Client Contracts. This field must be populated with the code used to identify the beneficial owner of the Client Contract in the Member’s books and records. This code must be consistent with that used when reporting positions to the Exchange.

³ Note that this will record the time of: (i) the Contingent Agreement to Trade; or (ii) the agreement of the Agreed Trade arranged by the RIB; pursuant to Regulation 2.5.1(d) or 2.5.2(e), as applicable, of Part 3 of the LME Rules, the Agreed Trade shall, provided that it satisfies the Acceptance Criteria, be Executed at the time, following the completion of any Fixed Price Auction, that the Matching System confirms that the Agreed Trade is matched and that all Pre-Execution Checks are satisfied.



26. When entering orders on LMEselect, Members must ensure that they identify the correct account where appropriate. Trades incorrectly identified will be allocated to an X Account of the Clearing Member and it will be the responsibility of the Clearing Member to reverse the trade and allocate it to the right account in accordance with the procedures set out in paragraphs 37-43 below.

Post-Trade/Administrative Functions

27. This section details the post-trade/administrative functions that are available for Members; Members are encouraged to contact the Exchange if they are unsure how to effect any particular post-trade activity (email: posttradeoperations@lme.com, phone +44 (0)20 7113 8201).

Transfer

28. This post-trade category should be used to move a single trade or a group of trades (“a position”) between Members, for a common Client or non-common Client between two Clearing Members or alternatively within a Member’s own account structure.
29. This post-trade category should also be used where Members wish to undertake a metal position exchange (formerly referred to as a metal position swap) whereby users of physical metal swap (exchange) an existing on- Exchange hedge and a commitment to deliver physical metal. The entry recorded in the Matching System is therefore the movement of a position for a non-common Client.
30. When undertaking a physical metal swap for a non-common Client Members are required to have a 4-way agreement in place prior to entering such a transaction. Members must maintain a full audit trail in order to demonstrate complete history of a transaction. Each Member must confirm via the agreement that the Client is a direct customer, is a commercial user of the metal concerned and had given the Member written instructions regarding the metal swap transaction. The Member must ensure that the transaction is not in breach of LME Rules or other appropriate legal requirements.
31. Members executing an exchange for physical (“**EFPP**”) transaction and in



doing so wish to create a new hedge on Exchange (as opposed to using an existing position), should use the Financing trade category. Where the Members or their Clients wish to use an existing position as a hedge for an EFP transaction, then this constitutes a metal position exchange and the Transfer trade category should be used.

32. Where transferring a Client position between Clearing Members for the Base Service, the position must first be moved out of the relevant GOSA/OSA/ISA account to the Member's House account using the Transfer post-trade category. Once this registration has been completed, the Transfer trade half may be entered into the Matching System for matching with the other Clearing Member to effect the Transfer. Once the Client position has been received into the Member's House account, the position should subsequently be moved to the relevant GOSA/OSA/ISA account.
33. For the LMEprecious service, transferring a Client position between Clearing Members does not need to be moved out of the relevant GOSA/OSA/ISA account to the Member's House account. Instead, the transfer can be effected directly from the relevant GOSA/OSA/ISA account to the other Clearing Member's GOSA/OSA/ISA account as appropriate.
34. Client positions may be transferred at the original "Historic" contract price, or "Current" market price (usually the Closing Price for the relevant Prompt Date). Members may transfer a single trade or a trade weighted average of the longs AND a trade weighted average of the shorts as long as they maintain a sufficient audit trail to demonstrate how the "average" price was calculated and which pricing basis was used. **Members may not offset long and short positions between two or more accounts to effect a position transfers, for the purpose of avoiding or evading the Matching Rules or otherwise.** Members may not average/amalgamate trades using different pricing bases.
35. The Transfer post-trade category should also be used to offset a **common** Client's delivery exposure for the Cash Today ("**TOM**") or Cash Prompt Date for existing on-Exchange positions. In these circumstances, a net position may be offset at each Clearing Member by submitted the relevant entries to the Matching System priced at the Official Settlement Price for the Prompt Date.
36. The Transfer post-trade category may also be used to offset an existing on-



Exchange position at one Member with an OTC position at another Member for a **common Client**, or an existing OTC position at one Member with an on-Exchange position at another Member for a common Client using the Transfer trade category in conjunction with the OTC Bring-On trade category as applicable.

Reversal/Correction Cancellation Flag

37. To execute a Reversal/Correction the cancellation trade flag should be used to correct errors that may have occurred in one or more of the fields entered into the Matching System at the point of trade submission. In addition, this facility should also be used in conjunction with the revised Give-Up process detailed below.
38. Trades previously submitted with a Reversal/Correction trade category must be submitted with the same trade category as the previously registered trade. The new trade must have the correct Cancellation Flag and the Cancel Link Id set to the Matching Reference Number of the original trade.
39. Trades submitted to the Matching System with the Reversal trade flag must reflect the exact economic trade details of the trade originally registered other than the 'Buy/Sell' indicator. For the avoidance of doubt, no partial Reversals are permitted.
40. Client Contracts may be cancelled and resubmitted to the Matching System on the day of trade ("T") but errors identified thereafter (T+1 onwards) must be corrected using the Reversal/Correction above.
41. In the event that a trade Executed in LME Select requires a price adjustment as a result of the Lending Rules, Members must use the Reversal/Correction process Normal trade category against venue inter-office to effect the necessary adjustment.
42. The Reversal/Correction process can also be used to effect a currency conversion in which an existing Client Contract is converted from one currency accepted by the Exchange to another currency accepted by the Exchange.



43. In the event that an Agreed Trade is arranged by a RIB and is matched and submitted to the Matching System, and needs to go through the Reversal/Correction process:

- the RIB must liaise with each Clearing Member to agree the correct details of the Agreed Trade to be re-submitted;
- once agreed, either of the following processes should be followed in order to execute a Reversal/Correction:
 - the RIB shall enter two new trades with the Cancellation flag set to Reversal/Correction, to: (i) counter the original registration of the Agreed Trade in the Matching System (Cancellation flag set to R (Reversal)); and (ii) register in the Matching System the Agreed Trade with the correct details agreed by each Client of the RIB (Cancellation flag set to C (Correction)). Both the Reversal and the Correction will have to be approved by both Clearing Members in order to match and lead to an Agreed Trade; or
 - alternatively, each Clearing Member shall enter two new trades with the Cancellation flag set to Reversal/Correction, to: (i) counter the original registration of the Agreed Trade in the Matching System; and (ii) register in the Matching System the Agreed Trade with the correct details agreed by each Client of the RIB.

Use of UNAs to Facilitate Issuing of Client Contracts and Other Uses

44. The process for use of the “UNA” mnemonic in Give-Ups is set out below, particularly at paragraphs 51 to 61. The Exchange acknowledges that Members use the “UNA” mnemonic other than in connection with the registration of Give-Ups. For example, UNAs are used in connection with the registration of Client Contracts, in circumstances other than those involving the facilitation of Give-Up trades. Such use of the “UNA” mnemonic is permitted, provided that:



- (a) Members comply with their obligations under Regulation 3.3 of the Trading Regulations and the provisions of the Clearing House Rules regarding the allocation of positions to the relevant position-keeping account at the Clearing House;
- (b) it is the sole responsibility of the Member to ensure that it allocates positions in respect of Contracts to an appropriate position-keeping account at the Clearing House to enable the Member and its Client(s) to comply with any applicable legal or regulatory requirements and/or any contractual obligations; and
- (c) such use is permissible under, and consistent with, the broader requirements set out in these Matching Rules and the LME Rulebook (in each case as amended from time to time).

Details of Certain Business Processes

Financing

45. The Financing trade category is used for financing transactions where the prices are likely to be away from the prevailing current market price. Under MiFID II, securities financing transactions are not considered to be reportable transactions. Therefore, the use of the Financing trade category will not result in any transaction reporting obligations, provided the transaction itself meets the following criteria:
- (a) a repurchase transaction – involves selling a commodity and agreeing to repurchase it in the future. The transaction must be governed by an agreement to transfer commodities, or guaranteed rights relating to title to commodities subject to:
 - (i) the seller can only transfer or pledge a particular commodity to one counterparty at a time;
 - (ii) the seller must agree to repurchase them, or substituted commodities of the same description; and



- (iii) the seller must agree to repurchase them at a specified price on a specific future date; or
 - (b) securities or commodities lending and securities or commodities borrowing – where a counterparty transfers commodities subject to a commitment that the borrower will return equivalent commodities on a future date or when requested to by the transferor; or
 - (c) a buy-sell back transaction or sell-buy back transaction – where a counterparty buys commodities, or guaranteed rights relating to title to commodities, and agrees to sell them (or commodities/guaranteed rights of the same description) back to the other party at a specified price on a future date. A sell-buy back represents the other side of the transaction; or
 - (d) a margin lending transaction – this only applies to securities, not commodities.
46. Historic Price Carry submission would be effected via the Financing Trade Category. Historic Price Carry trades are used to roll or carry forward an existing Client Contract to a valid Prompt Date on the basis of the original contract price between the same Members. Notice 99/484 : A472 : R034 ('RULES ON HISTORIC/ORIGINAL PRICE CARRIES') remains in force.

Give-Ups

47. Give-Up trades must be registered in the Matching System in relation to a trade that is concluded on any Execution Venue. Within 10 minutes from the time of Execution of the Client order, the executing Member must enter a Give-Up Executor trade half. Irrespective of which Execution Venue the trade is concluded on, Give-Up trades may only be submitted to the Matching System with venue code "Inter-office". Members are not permitted to submit Give-Up trades against any other venue code.
48. Where the executing Member knows the identity of the Give-Up Clearer at the time at which it enters the Give-Up Executor trade half, the executing Member may register the Give-Up Executor trade half directly to the Give-Up Clearer. In



this scenario, the executing Member must include the Give-Up Clearer's mnemonic in the counterparty field.

49. However, in order to facilitate Members' compliance with the 10 minute window mentioned above, Members may elect (but are not obligated) to use the process set out in paragraphs 51 to 61 below (the "**UNA process**"). Members may use this process whether or not the Clearing Member is known at the time of the Execution of the Client order, and for business that is executed on any of the LME Execution Venues.
50. Where an executing Member uses the UNA process, the executing Member must enter the member mnemonic "UNA" in the counterparty field. In both the trade to fulfil the Client order and the Give-Up Executor trade the account should be entered as "H".
51. The submission of the Give-Up Executor trade half into the Matching System will automatically generate a Give-Up Clearer trade half, with an account field of "U". This will create a matched trade that will be submitted for clearing, resulting in a cleared trade. This will lead to equal and opposite positions on the executing Member's H and U accounts.
52. Where the Clearing Member is known, the executing Member may then cancel or reverse the cleared trade by following either of the steps outlined in paragraph 53 below. When the Clearing Member has been advised in due course by the Client that the executing Member has filled his order, the Clearing Member will then enter a Give-Up Clearer trade half to the Matching System.
53. Where the executing Member has been advised of the Clearing Member to whom the trade should be given-up to for clearing, then the executing Member may do one of the following:
 - (a) Cancel the cleared trade that was created through the system-generated Give-Up Clearer trade half with the UNA member mnemonic, and submit a Give-Up Executor trade half with the now known Clearing Member mnemonic in the Counterparty field, with an appropriate Client reference where known; or



- (b) Reverse the original Give-Up Executor trade half with the UNA member mnemonic, and submit a Give-Up Executor trade half with the now known Clearing Member mnemonic in the Counterparty field and with an appropriate Client reference where known.
54. When the Give-Up Executor enters their reversal half trade, then a new matched trade will be created, but with the original trade date/time retained.
55. If the executing Member chooses to follow (a) above, then they must ensure that the Give-Up Executor trade half that contains the Clearing Member mnemonic also includes such information that allows for it to be identified as being related to the original cleared trade. In this regard, Members are reminded of the general obligation to ensure that they maintain a full audit trail for all orders, trade and post-trade operations.
56. For both (a) and (b) the Execution Time of the Give-Up Executor trade half must be the same as that entered on the original cleared Give-Up Executor/Give-Up Clearer trade.
57. Where the details of the original trade have changed – e.g. Prompt Date, price, volume – then the executing Member may again choose to follow either (a) or (b) as above. However, in these circumstances the Execution Time of either the Give-Up Executor trade half must be the time at which the amended details of the trade were agreed with the Client.
58. Members are reminded of the need to ensure that orders which are to be given-up to other Members for clearing, are done so in a timely fashion, and that it is the responsibility of all Members, executing and clearing, to ensure that they, and their Clients recognise the importance of transmitting any Client instructions and processing this business as swiftly as possible.
59. Where it has not been possible to effect a give-up on trade date (“T”), then the Cleared Trade, created through the submission of the Give-Up Executor trade half and the system-generated Give-Up Clearer trade half, will be processed by the Clearing House together with all other Cleared Trades in accordance with the Clearing House Rules.

60. Regulation 2.11 of Part 3 of the Rules requires Members to comply with, amongst other things, the timing requirements for the processing of Give-Ups. The deadline for processing Give-Ups that have not been processed on T, is 10:00 (London time) on T+1. This is to be achieved by the executing Member reversing the original Cleared Trade, and then submitting a Give-Up Executor trade half in the same manner as the original trade half, with the Trade Date and Time being the original time at which the Client order was executed. However, Members should be aware that they may be required to provide the Exchange with such additional information as the Exchange may request from time to time to demonstrate why it was not possible to process the Give-Up on T.

OTC Bring-Ons and Backloading

61. The OTC Bring-On category may be used where a Member has:
- (a) Entered into an over-the-counter contract with another Member;
 - (b) Agreed with that other Member a Contingent Agreement to Trade pursuant to which the parties agree to submit transaction details reflecting the terms of the over-the-counter contract.
62. An Agreed Trade that is submitted with the OTC Bring-On category shall therefore be treated in the same way as any other Agreed Trade made in the inter-office market.
63. It is the responsibility of the Members that are counterparties to the original over-the-counter contract to take any action that may be necessary to terminate or cancel such contract when the Agreed Trade represented by the Contingent Agreement to Trade is Executed. Neither the Exchange nor the Clearing House shall have any responsibility or liability to any person in respect of the original over-the-counter contract.
64. The Clearing House may offer services to enable Members to clear through the Clearing House Cleared Contracts representing multiple, previously executed, over-the-counter contracts (an "**OTC Backloading Service**"). Such services shall be governed by the terms of any agreement pursuant to which the Clearing House and/or the Exchange makes such services available. Such contracts shall be input into the Matching System pursuant to a Contingent Agreement to Trade, in the same manner as an OTC Bring-On, save that the particulars of the Contingent Agreement to Trade shall be determined pursuant to the OTC Backloading Service. The Exchange shall treat any Agreed Trade submitted to the Matching

System resulting from an OTC Backloading Service in the same manner as any other Agreed Trade represented by a Contingent Agreement to Trade agreed in the inter-office market.

65. The OTC Bring-On trade category may only be used to exchange a pre-existing over-the-counter transaction for a Cleared Contract. All OTC Bring-On transactions must comply with the following requirements:
- (a) the over-the-counter transaction must:
 - i. have been booked by both counterparties to the transaction;
 - ii. be booked within their trading systems; and
 - iii. be documented as such; and
 - (b) the trade date of the original over-the-counter transaction must be prior to the trade date of the OTC Bring-On.

OTC Take Off

66. The OTC Take Off category may be used to convert a Client Contract to an OTC contract. Cleared Contracts that are not Client Contracts cannot be taken off exchange.
67. For each contract taken off exchange the member must be able to provide full details of the relevant Client Contract. The OTC Take Off created must be for the same contractual commitment as the original Client Contract.
68. Member must maintain a full audit trail for the OTC Take Off transaction including the client instructions to take each trade off exchange.
69. Neither the Exchange nor the Clearing House shall have any responsibility or liability to any person in respect of the over-the-counter contract.

Pre Trade Transparency (PTT) and Fixed Price Auctions (“FPA”)

70. In the event that an IOM PTT Initiating Pair has been received into the Matching System (in accordance with Trading Regulation 2.15), an FPA will automatically start with the FPA details and fixed parameters (contract information) disseminated via the LME Market Data feeds. It should be noted that, where the particulars of the PTT Orders are input to the Matching System by a Registered Intermediating Broker, the FPA will commence only following the approval by the Clearing Member(s) responsible for the resulting Agreed Trade.

If either leg of an IOM PTT Initiating Pair for TOM has been received after 12:30 using the 'Normal' trade category the Matching System will automatically reject the submission. Any initiating bids or offers received after 12.30 for TOM will need to be booked using the 'Exception Reportable' trade category in order to pass validation.

71. Members wishing to participate in an active FPA can submit bids and offers into the matching system within the Auction Window. Bids and offers will be required to include the active FPA Auction ID in the Public Reference field, entering the fixed parameters (e.g. same price and same shape for a carry as the auction trade) within the relevant LMEsmart fields. Such Members must also enter the volume at which they are willing to bid/offer, which may be different from the volume of the IOM PTT Initiating Pair. When submitting auction bids/offers, the counterparty must be "AUC" and the Category, Price Type and Venue must be "Normal", "Current" and "Inter-Office" respectively.
72. Any bids or offers containing the following will be rejected on entry:
 - (a) an invalid or expired Auction ID;
 - (b) invalid fixed parameters; or
 - (c) a combination of Category, Price Type and Venue other than "Normal", "Current" and "Inter-Office".
73. Initiating bids and offers or those subsequently submitted into an auction can be cancelled prior to the end of the Auction Window. Initiating bids and offers for Give Ups, Cross trades and RIB orders are treated as atomic units and the cancellation of one side of such an order would result in the cancellation of both sides. Initiating bids and offers that remain unmatched at the end of the Auction Window will go to a cancelled state. Any joining bids and offers that remain unmatched at the end of the Auction Window will be disregarded. In accordance with Trading Regulation 2.15.8(d)(iv), bids and offers may be matched based on bids and offers of differing volumes ("**partial fills**"), subject to the criteria and limitations specified in Trading Regulation 2.15.8(d)(iv).

Auction End

74. At the end of the auction, the Matching System will automatically match up any successful bids and offers, creating matched trades for submitting to clearing.

Out of Scope Orders

75. This section details the trade categories, orders for which, are to be treated as **"Out of Scope Orders"** for the purposes of Regulation 2.15 of the Trading Regulations:
- (a) OTC Bring-On / OTC Take-Off (as described in paragraphs 14 and 61 – 69)
 - (b) Transfer (as described in paragraphs 14 and 28 – 36)
 - (c) Reversal/Correction (as described in paragraphs 37 – 43)
 - (d) Financing (as described in paragraphs 14 and 45 - 46)
 - (e) Exception Reportable / Exception Non Reportable (as described in paragraph 14)
76. A Member shall not mis-use the OTC Bring-On trade category in order to avoid the application to an Inter-Office Order of the Pre-Trade Transparency Requirements and Regulation 2.15 of the Trading Regulations.

Appendix 4

Consultation Responses – Miscellaneous Amendments to the Rulebook

Member response	LME Comment
(a) Provision of Information	
<p>What is the background to the LME's introduction of its enhanced powers regarding over-the-counter information?</p>	<p>In light of a regulatory drive towards greater transparency within financial markets generally, and market conduct issues which the LME has recently observed as having occurred on the Exchange, the LME considers it necessary to modify and enhance its powers to request information relating to over-the-counter business in metals from Members.</p>
<p>Members may have affiliates operating in certain jurisdictions whose regulations do not permit the provision of confidential client information to foreign regulators, even in circumstances where the Client has provided consent for such information to be shared with foreign regulators. What are the LME's expectations around Members managing this conflict in order to comply with Regulations 12.1 and 12.1.4 of Part 2 of the Rulebook?</p>	<p>The LME cannot advise Members on how they can or should discharge their regulatory obligations in local or foreign jurisdictions. However, the LME expects Members to adhere to their obligations under the Rulebook. These obligations include being open and cooperative in relation to enquiries raised by the LME (Regulation 12.6(k) of Part 2 of the Rulebook).</p> <p>The LME reminds Members and market participants that any information that it obtains pursuant to Regulations 12.1 and 12.1.4 of Part 2 of the Rulebook will be subject to the confidentiality requirements set out in Regulation 21 of Part 2 of the Rulebook.</p>
<p>When would the LME exercise its powers under Regulations 12.1 and</p>	<p>The use of any powers under Regulations 12.1 and 12.1.4 of Part 2 of the Rulebook to request information would only be used where strictly necessary. Generally, but without limitation, this will be in order to facilitate the Exchange's investigation, whether formal or informal, into</p>

Member response	LME Comment
12.1.4 of Part 2 of the Rulebook?	suspected market abuse or other possible breaches of the LME’s Rules. LME investigations follow a carefully delineated internal procedure and are subject to strict controls and supervision. The LME would only exercise its powers in this respect where it had genuine, reasonably held grounds for the suspicion, and such powers would not be exercised lightly.
What safeguards will the LME put in place to ensure that the exercise of its powers under Regulations 12.1 and 12.1.4 of Part 2 of the Rulebook are proportionate?	Please see response immediately above. The LME also reminds Members and market participants that any information that the LME obtains pursuant to Regulations 12.1 and 12.1.4 of Part 2 of the Rulebook will be subject to the confidentiality requirements set out in Regulation 21 of Part 2 of the Rulebook.
Does the use of term “over-the-counter” in Regulation 12.1.4 of Part 2 of the Rulebook refer to “Applicable OTC Contracts” only?	The term “over-the-counter” is intentionally broad. Whilst generally information requested would be expected to be limited to Applicable OTC Contracts, it may in certain circumstances need to be broader than this, and so the drafting is intentionally not limited to Applicable OTC Contracts.
Members may be required to undertake expansive, resource and time intensive reviews of their client agreements/documentation to identify and consider confidentiality terms in light of the LME’s proposed change to the Rulebook. Has the LME considered the risk of non-compliance by Members and market participants in the immediate term?	The LME recognises that Members may need to amend their existing terms of business with Clients or affiliates in order to ensure compliance with Regulation 12.1 and 12.1.4 of Part 2 of the Rulebook. In order to allow Members time to make such amendments, the provisions of Regulation 12.1 and 12.1.4 of Part 2 of the Rulebook shall not take effect until 1 March 2021.
The LME can co-ordinate with the FCA to raise concerns or obtain relevant	The LME has regulatory obligations to ensure that it has appropriate controls in place to monitor, detect and take action against instances of suspect market abuse that

Member response	LME Comment
<p>information regarding suspicious trading activity. Can the LME explain why it considers this method to obtain OTC information to be insufficient?</p>	<p>may have occurred on the Exchange, or partly on the Exchange, or using the Exchange's facilities. The LME considers that the provision of OTC information from Members will assist the LME in undertaking investigations into suspected market abuse that either may be occurring or may have occurred and take appropriate action in order to maintain the integrity of its market. If the LME has to rely on a regulator to obtain relevant information, there is a risk that the LME may be deemed not to continue to comply with its regulatory obligations. The LME therefore considers it is essential for it to have these powers itself, rather than to rely on a third party.</p>
<p>The scope of the LME's enhanced powers are inconsistent with other exchanges. Has the LME considered whether a more consistent approach in line with other exchanges might be adopted?</p>	<p>Generally, the LME will take careful account of the positions adopted by other exchanges, and not to put itself into a position which is substantively out of line with its peers, except where necessary in its absolute discretion. However, in this instance, in the absence of the powers proposed, there is a risk that the LME may be deemed not to be in compliance with its regulatory obligations. The LME therefore considers it is essential for it to have these powers, irrespective of the approach taken by other exchanges.</p>
<p>(b) Imposition of Requirements on Clients</p>	
<p>Has the LME considered how the exercise of its powers under Regulation 12.10 of Part 2 of the Rulebook may impact the ability of a Member to comply with the EU Market Abuse Regulation and associated financial crime regulations (in particular with regard to tipping-off)?</p>	<p>As a general observation, the LME considers it unlikely, in most circumstances, that the exercise of its powers under Regulation 12.10 of Part 2 of the Rulebook would affect the ability of a Member to continue to comply with MAR and associated financial crime regulations. As described in the Decision Notice, the LME's use of its powers under Regulation 12.10 of Part 2 of the Rulebook will be subject to strict internal procedures. The LME will need to consider in all circumstances whether the use of its powers is appropriate having regard to all relevant circumstances. Factors that would weigh against implementing the powers in respect of a Member include, without limitation: (a) where to do so would result in the Member itself being in breach of any applicable law or</p>

Member response	LME Comment
	regulatory requirement; or (b) where to do so would result in the Member or another person being at risk of “tipping off” the subject of an investigation under MAR.
What process will the LME put in place to identify a “Client of Concern”?	A broad outline of the LME’s internal process is contained at paragraph 21 of the Decision Notice above.
Members will need to undertake resource and time-intensive reviews of their client agreements/documents and consider whether it is possible to comply with Regulation 12.10 of Part 2 of the Rulebook. Has the LME considered the risk of non-compliance by Members in the immediate term?	The LME recognises that Members may need to amend their existing terms of business with Clients or affiliates in order to ensure compliance with Regulation 12.10 of Part 2 of the Rulebook. In order to allow Members time to make such amendments, the provisions of Regulation 12.10 of Part 2 of the Rulebook shall not take effect until 1 March 2021.
Will the LME provide a notice period to Members prior to exercising its powers under Regulation 12.10.3 of Part 2 of the Rulebook?	Unless urgency dictates otherwise, the LME expects that it will provide Members with reasonable notice prior to exercising its powers under Regulation 12.10.3 of Part 2 of the Rulebook. However, whether such notice shall be provided to a Member shall be at the LME’s absolute discretion.
If, pursuant to Regulation 12.10.3 of Part 2 of the Rulebook, the LME directed a Member to take action against a Client, could such a direction be imposed against that Client indefinitely?	A broad outline of the LME’s internal process is contained at paragraph 21 of the Decision Notice above. Any use of the powers by the LME will follow this internal process and will be limited to that which is necessary and proportionate. This will include the period of time for which a direction is imposed: it will need to take account of all relevant circumstances and only be for the length of time necessary to achieve its aim.
Will Members be able to appeal the LME’s decision to exercise its powers	The LME acknowledges that the exercise of its powers under Regulation 12.10 of Part 2 of the Rulebook may impact the relationship between a Member and its client.

Member response	LME Comment
pursuant to Regulation 12.10 of Part 2 of the Rulebook?	Unless urgency dictates otherwise or the LME deems it otherwise appropriate, the LME would expect to seek representations from a Member before exercising its powers under Regulation 12.10 of Part 2 of the Rulebook. However, the LME will retain absolute discretion in determining whether such representations are required.
(c) Information Sharing	
Who would be responsible for the determination of whether the member requesting this information did so in accordance with the “operating rules” of the body governing the exchange of information?	<p>The LME, as a member of an industry body for other exchange groups, is bound by the rules/terms and conditions governing the exchange of information under the framework of that industry body.</p> <p>An example of such an industry body is the Intermarket Surveillance Group (“ISG”). The LME is a member of the ISG, together with other international exchanges and is subject to operating rules/terms and conditions which govern the exchange of information between members in connection with matters such as market surveillance. The LME is also in discussions to join an industry body convened by the FCA called the Shared Intelligence Service (“SIS”) and accordingly the rule is drafted so that it would apply to any such similar arrangement that the LME may enter into in future.</p> <p>Should the LME receive a request for information from another member of an industry body of which the LME is also member, it will be the responsibility of the LME to ensure that such request is in accordance with the operating rules and/or terms and conditions of the industry body.</p> <p>The LME reminds Members that, in accordance with the restrictions specified in Membership Regulation 21.2(b), such sharing of information will only be permitted where the purpose is to (A) ensure the effective surveillance of the LME’s markets, and/or (B) aid the requesting member with the effective surveillance of markets, when involved in monitoring such markets for market abuse.</p>

Member response	LME Comment
<p>What limits, if any, would the Exchange implement with respect to the transmission of information which could be confidential, materially price and competitively sensitive?</p>	<p>As noted above, the LME is subject the restrictions in Membership Regulation 21.2(b) defining the purposes for which the information may be shared.</p> <p>The LME would only transmit information in accordance with the internal rules and/or terms and conditions governing the exchange of information under the framework of the relevant industry body.</p> <p>The LME is required to ensure that it adheres to the relevant industry body’s rules to the extent that they set out: (a) under what circumstances information can be requested and for what purpose; (b) how disclosed information must be handled in respect of confidentiality and data protection; and (c) protections against the misuse of disclosed information, including antitrust abuse.</p>
<p>Has the LME considered the definition of “member” of such an industry body for exchanges (which itself is an undefined term). Could a member include a competitor firm, for example?</p>	<p>The LME purposively kept the use of ‘member’ undefined as the industry bodies that the LME is a member of may change from time to time, as well as the other members of such industry bodies.</p> <p>Whilst the LME cannot state definitively (on the grounds that an industry body’s membership can change from time to time), it is the LME’s experience that the membership of the industry bodies that the LME tends to join is generally made up of regulators and other exchange groups, rather than active market participants.</p> <p>The LME has also ensured within the drafting of the rule that the transmission of information will only be permitted where the purpose is to (A) ensure the effective surveillance of the LME’s markets, and/or (B) aid the requesting member with the effective surveillance of markets, when involved in monitoring such markets for market abuse. On this basis, a request for information as a mechanism to gather commercially sensitive information for commercial purposes, rather than for the surveillance of a market, would not be approved.</p>