

To: All Members

Ref: 17/358

Classification: General updates Membership

Date: 24 October 2017

Subject: **UPDATE NOTICE - PROVISION OF INFORMATION FOR
ALGORITHM CONFORMANCE TESTING AND DIRECT
ELECTRONIC ACCESS**

Summary

1. This Notice replaces Notice 17/351 issued on 23 October 2017. This Notice has been re-issued with an update to the Action Timeline contained in sections 18 and 20.
2. Notice No. 17/344, issued 18 October 2017, advised Members that the policy on Algorithmic Trading and Order Routing Services had been revised following Member consultation. This policy is to come into effect from 3 January 2018 onwards.
3. The policy requires Members to certify to the LME that algorithms used to direct business to the LME have undergone conformance testing and to provide the LME with certain information regarding those algorithms. Further, where Members have provided Direct Electronic Access (DEA) services to Clients, then certain information should also be provided to the LME with regard to these services. This Notice sets out how relevant information should be provided to the LME.

Defined Terms

4. Terms not otherwise defined in this Notice shall have the meaning ascribed to them in the Rules and Regulations of the LME (the “**Rules**”, “**Rulebook**”, or “**LME Rulebook**”).
5. The term “Algorithmic Trading” has been defined by the LME Rules as: “trading in financial instruments (as such term is defined in Article 4(1) (15) of the MiFID II Directive) where a computer algorithm automatically determines individual parameters of orders such as whether to initiate the order, the timing, price or quantity of the order or how to manage the order after its submission, with



limited or no human intervention, but excluding any system that is only used for the purpose of routing orders to one or more trading venues (as such term is defined in Article 4(1)(24) of the MiFID II Directive) or for the processing of orders involving no determination of any trading parameters or for confirmation of orders of the post-trade processing of executed transactions”. References to “algorithms” or “algorithmic” (and so on) in this Notice refer to algorithms used for Algorithmic Trading (as defined).

Information Required

Direct Electronic Access - Notification

6. Members are required to complete the form Direct Electronic Access (DEA) Provider Notification which is attached to this Notice as Appendix 1.

One form must be completed for each Client receiving a DEA service.

7. The information required includes:
 - a) The identity of the Client to whom a DEA service is provided;
 - b) The LEI, or short code that references the appropriate LEI, for the client identified in (a) above;
 - c) Details of any limits imposed upon the Client, whether per order, intra-day exposure of maximum position limits, any conditions that have been applied to the provision of the service to any particular Client;
 - d) The date on which DEA for the Client was deployed;
 - e) The unique identifier used for any orders submitted by the Client;
 - f) Confirmation that all relevant regulatory requirements, including but not limited to those set out in MiFID II, have been complied with; and
 - g) The contact name and details for a compliance contact for both the Member and the Client to whom any queries should be addressed.
8. Completed forms must be returned to LME Trading Operations (tradingoperations@lme.com) no later than the date specified in the timeline below.



Algorithm Conformance Testing and Certification

9. Members who wish to deploy an algorithm or substantially change an existing algorithm must certify prior to the LME prior to deployment that the algorithm has undergone conformance testing to avoid creating or contributing to disorderly trading conditions. The testing methodology and testing undertaken must also be explained. It is the Member's responsibility to determine whether a change to an existing algorithm which has already been deployed, constitutes as a substantial update and whether re-certification is required.
10. As advised in Notice No. 17/319, issued 20 September 2017, the upgrade of LMEselect 9.2 will go live on 13 November 2017. LMEselect 9.2 provides Members with access to an algorithmic testing environment where algorithms can be tested using Lead and Gold testing contracts. Further information regarding the algorithmic testing environment can be found in the document entitled 'LMEselect and LMEsmart Testing Services' which can be found at:

<https://www.lme.com/en-GB/Trading/Systems/LMEselect#tabIndex=3>
11. The conformance testing shall ensure that the basic functioning of the Member's trading system, algorithm and strategy complies with the LME's conditions set out in the LME Rules and Algorithmic Trading and Order Routing Services policy. The conformance testing shall verify the functioning of the following:
 - a) the ability of the system or algorithm to interact as expected with the LME's matching logic and the adequate processing of the data flows from and to the LME;
 - b) the basic functionalities such as submission, modification or cancellation of an order or an indication of interest, static and market data downloads and all business data flows; and
 - c) the connectivity, including the cancel on disconnect command, market data feed loss and throttles, and the recovery, including the intra-day resumption of trading, handling of suspended instruments or non-updated market data.
12. By 13 December 2017, all Members are required to complete conformance testing for each algorithm used to transact business on the LME.



13. Members must then certify to the LME that each algorithm has undergone conformance testing to avoid creating or contributing to disorderly trading conditions. The information must be provided in the Algorithm Certification Attestation form which is attached to this Notice as Appendix 2.

One form must be completed for each algorithm.

14. The information required includes:

- a) The metal(s) for which each algorithm is used;
- b) Testing methodology undertaken for each algorithm;
- c) Testing period for the algorithm;
- d) Results of the testing undertaken;
- e) Deployment date of the algorithm;
- f) The unique identifier to be used for any orders submitted via the algorithm; and
- g) The contact name and details for a compliance contact to whom any queries should be addressed.

15. Completed forms must be returned to LME Trading Operations (tradingoperations@lme.com) no later than the date specified in the timeline below.

16. It should be noted that this Notice requires Members to provide information for all existing DEA services and algorithm deployments in advance of MiFID II. Following the provision of the information required in this Notice, Members will be required to provide similar information for all new DEA relationships and deployment of algorithms on an ongoing basis, in accordance with the LME policy on Algorithmic Trading and Order Routing Services.

17. Where possible Members must submit duly completed forms to the LME prior to the DEA service being deployed, but in any event within 14 calendar days of the deployment date.



Action timeline

18. Members must complete DEA notifications, algorithm conformance testing and algorithm attestations and submit the information required by this Notice by the dates indicated below.

Deadline	Action
23 November 2017	Completion and submission to the LME of Direct Electronic Access (DEA) Provider – Notification forms (one form per Client receiving a DEA service).
13 November 2017	LMEselect 9.2 go-live.
13 December 2017	Completion of algorithm conformance testing and submission to the LME of Algorithm Certification Attestation forms (one form per algorithm).

19. Failure to submit the appropriate forms may lead to the suspension of access where the LME considers, at its absolute discretion, that such access is either by way of DEA service or the use of an algorithm.

20. Where Members provide DEA services to Clients and/or deploy new algorithms or make any substantial updates to existing algorithms after the dates specified in section 18 above, then a new form must be submitted in accordance with sections 8 and 15 respectively.

21. If Members or any other interested parties have any questions or requests for further clarification regarding this Notice, please contact the LME Trading Operations department at tradingoperations@lme.com.

Peter Mason
Head of Market Surveillance

cc: Board Directors

Direct Electronic Access (DEA) Provider - Notification

Member
Name of Client to whom the service has been offered
Client Legal Entity Identifier (LEI), or short code that references appropriate LEI
Details of any limits imposed upon the Client, whether per order, intra-day exposure or maximum position limits, and any other conditions that have been applied to the provision of the service to any particular Client
Proposed deployment date of the service
Unique identifier to be used for any orders submitted by the Client
Confirmation that all relevant regulatory requirements, including but not limited to those set out in MiFID II, have been complied with
Contact name and details for compliance contact within the Member firm to whom any queries should be addressed to
Contact name and details for compliance contact within the Client firm to whom any queries should be addressed to
Authorised firms, and certain firms exempt from MiFID II, must notify the FCA if they are providing direct electronic access (DEA) – confirm that FCA have been notified

Please email completed notifications to tradingoperations@lme.com

Name:

Position / Title:

Signed:

LMEselect - Algorithm Certification Attestation

Member
Metal(s) for which the algorithm will be deployed
Testing methodology undertaken by the Member
Testing period for the algorithm
Results of the testing undertaken
Proposed deployment date of the algorithm
Unique identifier to be used for any orders submitted via the algorithm
Contact name and details for compliance contact within the Member firm to whom any queries should be addressed to
Authorised firms, and certain firms exempt from MiFID II, must notify the FCA if they are undertaking algorithmic trading – confirm that FCA have been notified

Please email completed attestations to tradingoperations@lme.com

Name:

Position / Title:

Signed: