

To: All Members and other interested parties

Ref: 22/150 (LME Notice Reference)
22-033 (LME Clear Circular Reference)

Classification: Trading

Date: 25 May 2022

Subject: **SERVICE WITHDRAWAL NOTICE – LMEPRECIOUS**

Summary

1. Following the notification to the market of the intention of the LME Group to withdraw the LMEprecious Service (LME Notice 22/124 and LME Clear Circular 22-025 dated 22 April 2022), this Notice addresses the intended timeline for, and operational arrangements to facilitate, the withdrawal of the LMEprecious Service.
2. It also updates market participants as to how LMEprecious prices that are currently published in and through LME systems, will cease to be provided with effect from the Termination Date.¹

Background

3. Following discussions with market participants and in light of the low levels of trading in the LMEprecious market, the LMEprecious Service is being withdrawn in its entirety for all LMEprecious Members, with mutual agreement from EOS Precious Metals Limited. This Notice informs Members that the Service Withdrawal Date and the Voluntary Close Out Date is 11 July 2022. There will be a period following the Service Withdrawal Date during which Members will be off-boarded from the LMEprecious Membership.
4. Following 11 July 2022, there will be a period during which LME Clear may take action to discharge any remaining open LMEprecious Contracts, and once this has been done, LME Clear will issue a further Notice (under Rule 3.13.4(e) of the LME Clear Rules) specifying the Termination Date and the date on which the Default Fund will be recalculated, which is currently expected to be in August 2022.

Defined terms

5. Capitalised terms not otherwise defined in this Service Withdrawal Notice shall have the meaning ascribed to them in the Rules and Regulations of the LME (the “**LME Rulebook**”) and the Rules and Procedures of LME Clear Limited (the “**LME Clear Rules**”) as the context requires.

Overall timeline and next steps

6. The LME and LME Clear have determined that the LMEprecious Service shall be withdrawn. As such the LMEprecious Service shall be the subject of a Service Withdrawal (pursuant to the LME Clear Rules), and pursuant to Rule 3.11 of the LME Clear Rules this Notice constitutes a Service Withdrawal Notice in relation to the LMEprecious Service. The Service Withdrawal shall take effect on 11 July 2022 (the “**Service Withdrawal Date**”). From the Service Withdrawal Date,

¹ In this Notice this term includes the Service Termination Date, where a Member’s membership of the LME also relates to another Service.



LMEprecious Members shall no longer be eligible to submit any LMEprecious Transactions to LME Clear for clearing, in accordance with Rule 3.11(c) of the LME Clear Rules.

7. Pursuant to Rule 3.13.4 of the LME Clear Rules, this Notice constitutes a Voluntary Close Out Date Notice, and the Voluntary Close Out Date shall be 11 July 2022. By the Voluntary Close Out Date, all In Scope Open Contracts to which the Member is a party must have been settled, transferred, closed-out, liquidated or otherwise discharged in accordance with the Rules.
8. Furthermore, the LME hereby prohibits, with immediate effect and in accordance with Regulation 2.16.1 of Part 3 of the LME Rulebook, the entering into of new transactions in LMEprecious Contracts, unless such transactions are entered into by the Member exclusively for the purpose of closing out existing positions in order to meet its obligations under Rule 3.13.4 of the LME Clear Rules.
9. In the event that any Member fails to meet its obligations by the Voluntary Close Out Date, LME Clear may exercise its right to take action to discharge the remaining Contracts (including closing out any remaining open LMEprecious Contracts in accordance with Rule 3.13.4(d) of the LME Clear Rules).
10. LME Clear shall communicate by way of a further Notice when all open LMEprecious Contracts have been discharged. This Notice will also specify the date on which the LMEprecious Default Fund will be recalculated, and the Termination Date for the LME Precious Service. It is expected that the Service Termination Date will take place in August (subject to the LME Clear Rules).
11. Any Members who do not have any In Scope Open Contracts will begin to be off-boarded from the Service Withdrawal Date and shall be contacted by the Market Access team directly in due course. Members who do not have any open positions and wish to be off-boarded sooner are asked to contact their Relationship Management contact to discuss this.
12. From the Termination Date (as defined in the LME Clear Rules) and until the LME has assessed, and made, relevant changes to LME systems, it is also necessary for the LME to continue to publish placeholder “values” in and through its systems where LMEprecious prices are currently published. These values are expected to be a constant value (although they may, in limited circumstances, change). However, this data will not in any circumstances constitute LMEprecious prices and should be disregarded for all purposes. The LME Group will assess systems requirements to suppress the publication of these values in due course.

Exchange Membership Agreements

13. For those Members who are LME Base and LMEprecious Members, Members will be contacted directly by the LME in due course, regarding the variation to their Exchange Membership Agreement from the Termination Date, so that it applies to the LME Base Service only.
14. Members who are LMEprecious Members only, will be contacted directly by the LME in due course, to have their Exchange Membership Agreement terminated from the Termination Date.

Updates to documentation

15. The LME has made administrative amendments to the LME Matching Rules and Guide to Market Structure to remove references to LMEprecious. The LME has also taken the opportunity to make other administrative amendments to the Matching Rules to reflect the introduction of Cash Settled Futures and remove references to Index Contracts. Redlines of these documents can be found at Appendices 1 and 2 respectively, with clean versions at appendices 3 and 4, and the LME will publish the revised documents on the LME website. The revised documents will take effect from the Termination Date pursuant to the LME Clear Rules.
16. From the Termination Date, any references to LMEprecious in the LME Rulebook and LME Clear Rules, and any related Notices will no longer be effective save to the extent that any relevant Rules or provisions are expressed to survive a Service Withdrawal. The LME and LME Clear



will remove references to LMEprecious in a future release of the LME Rulebook and LME Clear Rules.

Next steps

17. Should any market participants have any questions in relation to this Service Withdrawal Notice, or requests for further clarification, please contact the LME Relationship Management team at rm@lme.com.
18. Please ensure that the relevant members of staff within your organisation, and your clients, are advised of the content of this Service Withdrawal Notice as well as the revised Matching Rules and revised Guide to Market Structure.

Matthew Chamberlain
Chief Executive Officer – LME

Adrian Farnham
Chief Executive Officer – LME Clear

cc: Board directors

cc: User Committee



LME Matching Rules

~~Version 2.1~~ Version 2.2



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~~ the 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



<u>Inter-office</u>	<u>24 hours</u>	
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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, Cash-Settled Ferrous~~ Futures, LMEmini Contracts, Monthly Average Futures, and 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 LME Precious 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-electronically¹ :
 - **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 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.

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



- **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.

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



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 343 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 in the Ring during the relevant Ring or kerb session, basis a price(s) discovered in the Ring³ 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

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. This code should only be used in conjunction with the inter-office venue.

³ This applies to prices in relation to which the primary pricing methodology is Ring-based, notwithstanding that prices in relation to which the primary pricing methodology is electronic may (e.g. in business continuity scenarios) utilise Ring activity as part of the pricing process.



- **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. This code should only be used in conjunction with the inter-office venue.
- **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. This code should only be used in conjunction with the inter-office venue.
- **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 LME precious 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 permissible Ring session or "D 1-2" if agreed during the relevant kerb session (see also paragraph 16 above).
- **Inter-office** – the time at which the trade was agreed⁴, 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;

⁴ 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.



- **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.
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 ~~376-432~~ 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.~~
- 34.33. 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~~34. 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~~35. 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~~36. 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~~37. 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~~38. 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~~39. 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.

41.40. 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.

42.41. 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.

43.42. 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

44.43. The process for use of the "UNA" mnemonic in Give-Ups is set out below, particularly at paragraphs 540 to 640. 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

45.44. 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.

46.45. 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

47.46. 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.

48.47. 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~~48. 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 ~~50~~4 to ~~64~~0 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~~49. 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~~50. 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~~51. 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~~2 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~~52. 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.~~53. 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.~~54. 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.~~55. 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.~~56. 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.~~57. 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.~~58. 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.



~~60.59.~~ 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

~~61.60.~~ 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.

~~62.61.~~ 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.

~~63.62.~~ 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.

~~64.63.~~ 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.

~~65-64.~~_____ 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

~~66-65.~~_____ 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.

~~67-66.~~_____ 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.

~~68-67.~~_____ Member must maintain a full audit trail for the OTC Take Off transaction including the client instructions to take each trade off exchange.

~~69-68.~~_____ 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”)

~~70-69.~~_____ 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.

71.70. 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.

72.71. 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".

73.72. 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

74.73. 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.~~74. 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 ~~640~~ – ~~698~~)
- (b) Transfer (as described in paragraphs 14 and 28 – ~~365~~)
- (c) Reversal/Correction (as described in paragraphs ~~376~~ – ~~423~~)
- (d) Financing (as described in paragraphs 14 and ~~454~~ – ~~465~~)
- (e) Exception Reportable / Exception Non Reportable (as described in paragraph 14)

~~76.~~75. 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.



Document Change History

Date	Version	Author(s)	Summary of Changes
Previous versions are not listed			
01 October 2021	2.0	Post-Trade Operations	Clarifications regarding eligible Basis Trades (LME Notice 21/161)
07 October 2021	2.1	Post-Trade Operations	Further clarification regarding eligible Basis Trades
<u>25 May 2022</u> TBC	<u>2.2</u>	<u>Post-Trade Operations</u>	<u>Removal of LME precious provisions from the Matching Rules</u>

A GUIDE TO THE STRUCTURE, MARKET TERMINOLOGY AND ORDER EXECUTION OF THE LONDON METAL EXCHANGE

INTRODUCTION AND PURPOSE

1. This Guide is designed to provide market participants on the London Metal Exchange (the “LME”), and particularly Clients of Members, with an overview of the structure of the LME, market terminology, and order execution. It is also intended as guidance to help participants interpret the Rules and Regulations of the LME (the “LME Rulebook”) and any Notice issued pursuant to Regulation 2 of Part 1 of the LME Rulebook (together the “LME Rules”) (and also in certain circumstances the Rules and Procedures of LME Clear Limited (the “LME Clear Rules”)) and to outline certain behaviours the LME expects of its market participants. It is not a comprehensive trading guide, nor a complete guide to market terminology. Market participants should always ensure that their requirements are explained in detail to the Member responsible for order execution.
2. This Guide is not a substitute for reading the LME Rules, the LME Clear Rules or the terms of business agreed between Clients and Members. In the event of any conflict between this Guide and either the LME Rules or the LME Clear Rules, the LME Rules and the LME Clear Rules shall prevail.
3. Capitalised terms not otherwise defined herein shall have the meaning ascribed to them in the LME Rulebook, as amended from time to time.

THE LME

Execution Venues

4. Trades on the LME may be agreed on any of the LME’s three trading venues (defined as Execution Venues in the LME Rulebook): by open outcry in the Ring (during ring and kerb sessions), between Members in the inter-office market, and over the LME’s electronic trading system, LMEselect. LME trading times are available on the LME website at <https://www.lme.com/en-GB/Trading/Trading-venues/Trading-times#tabIndex=0>.
5. Depending on the time of day, it is possible for Members to deal in the inter-office market, by LMEselect, or in the Ring. Clients should specify which mechanism their broker should use to effect an order, where they have a preference.

The Ring

6. Only Category 1 Members may trade in the Ring.
7. Clients can follow the Ring market activity by monitoring quoted and traded prices disseminated via the LME market data dissemination system, or by listening to the simultaneous floor commentary provided by Member(s). The LME market data dissemination system publishes



quotes and trades during Ring and kerb sessions to market data vendor information services, and via its own market data platforms.

8. Members can continue to “make a market” when requested by a Client during the Ring and kerb sessions, although this is entirely at the Member’s discretion. Alternatively, the Client can decide whether to place an order.
9. Certain Contracts¹ are not available for trading in the Ring.

Inter-office

10. Inter-office trading is conducted between Members, or between Members and their Clients, by telephone or by electronic means. On contacting a Member for a quote, Clients will usually be provided with the Member’s current bid and offer. The Client may trade on this quote, call another Member in an attempt to improve the quote, leave a resting order with a Member, or wait and monitor prices on the LME market data dissemination system.
11. To ensure adequate transparency in this market (as required by MiFIR), the LME operates a Systematic Fixed Price Auction (“SFPA”). For those in scope orders, the auction process will start at the point the LMEsmart matches the PTT Orders and last for a period of 30 seconds. During this period, any Member (other than a RIB) is able to enter their own bids/offers into that auction in LMEsmart, at the same price as the originating orders. Upon the completion of the SFPA, the bids and offers remaining in LMEsmart will be matched on a time priority basis.

LMEselect

12. Category 1, 2, 3 and 4 ~~Members and LMEprecious~~ Members may be LMEselect Participants and enter into Contracts on LMEselect. In addition, Category 1, 2 and 4 Members may make available to a Client the order-routing facility of the LMEselect API.
13. LMEselect allows LMEselect Participants to trade Contracts, including (but not limited to) Futures Contracts, Metal Options, Traded Average Price Options, Monthly Average Price Futures, Ferrous Cash Settled Futures, Non-Ferrous Cash Settled Futures and LMEmini Contracts. As explained above, some brokers offer their Clients an order-routing facility via an API where they can place orders, and execute trades.
14. Subject to relevant licensing requirements, market data vendors may display, amongst other things, bid and offer prices available on LMEselect, the total volumes available at these prices (subject to iceberg orders – see paragraph 62 below), and the price and volume of each trade.
15. Where a Member permits a Client to use the order-routing facility of the LMEselect API, and, as a result, (a) one or more Cleared Contracts comes into effect, and (b) one or more Client

¹ Metal Options, Traded Average Price Options, Monthly Average Futures, LMEmini Contracts, Steel Scrap, Steel Rebar, Steel HRC FOB China, Steel HRC N. America, Cash Settled Cobalt, Molybdenum, ~~and Alumina, Gold and Silver.~~



Contracts come into effect, then the Client Contract must be on the same commercial terms as the relevant Cleared Contract (save that it may be marked up or down to reflect a commission payable by the Client). The Member must ensure that the Client Contract and the relevant Cleared Contracts are inputted into the Matching System, and that Client orders are not offset against each other (for further information, see the section entitled “Transacting on behalf of Clients” below).

16. The LME understands that Members may offer over-the-counter (“OTC”) contracts to their clients on the basis of electronic orders sent to the Member (for example through the Member’s own dealing system). The Member may directly hedge such OTC contracts on LMEselect (by entering into a Cleared Contract, but without giving rise to a back-to-back Client Contract), provided that the OTC contracts will be considered Relevant OTC Contracts for the purpose of the LME’s Financial OTC Booking Fee Policy (for further information on this Policy, see the section entitled “OTC Contracts and Use of LME IP” below).

Contract Formation and Clearing

17. Trades agreed on the LME shall give rise either to (a) Cleared Contracts, or (b) Cleared Contracts and back-to-back Client Contracts. Each Trading Member is responsible for the input into the LME’s Matching System, LMEsmart, of all Agreed Trades by it in relation to Contracts.
18. Cleared Contracts are cleared by the LME’s appointed clearing house, LME Clear. LME Clear clears Contracts on an open offer basis. LME Clear will make an offer to each party to the trade: it will offer to act as the buyer to the party who wishes to be the seller, and it will offer to act as the seller to the party who wishes to be the buyer. On acceptance of LME Clear’s offer by each party, two Cleared Contracts will be formed: one between LME Clear and the seller; another between LME Clear and the buyer. The time of execution will depend on the Execution Venue:
 - transactions (i.e. Agreed Trades) agreed in the Ring – the Cleared Contracts will arise at the time the trade is agreed in the Ring;
 - Agreed Trades arising in LMEselect – the execution time of the Cleared Contracts will be the point at which LMEselect confirms that the Agreed Trade has been matched and that all pre-execution checks have been satisfied; and
 - Agreed Trades in the inter-office telephone market – these will initially form a Contingent Agreement to Trade, the particulars of which the parties must then submit to the Matching System. The time of execution of the Cleared Contracts will be at the point that the Matching System confirms that the trades have been matched and that all pre-execution checks have been satisfied. This remains the case for trades that arise from a SFPA (save in the case of trades between RIBs and their clients, which shall initially give rise to an obligation on the RIB to submit the particulars of the initiating auction pair to the Matching System, rather than giving rise to a Contingent Agreement to Trade – see further Part 3 of the LME Rules.)



19. Where an Agreed Trade is made with a Client, upon execution of the Agreed Trade, Cleared Contracts shall be formed between the responsible Clearing Member and LME Clear and a back-to-back Client Contract shall automatically and immediately come into effect between the Client and the Member on the same terms as the Cleared Contract². Where the Clearing Member facilitates Indirect Clearing arrangements, i) a further Client Contract will arise between the Client and the Indirect Client (where the Client is a Category 4 ~~Member or LMEprecious Non-Clearing Member~~) or ii) a back-to-back exchange traded derivatives contract will be formed between the Client and the Indirect Client (where the Client is not a Category 4 Member ~~or LMEprecious Non-Clearing Member~~).]
20. In order to maintain the smooth and orderly operation of the market, the LME and LME Clear will carry out a number of pre-trade and post-trade checks. Further, Members must have adequate processes in place to ensure both they and their Clients have sufficient collateral in place before entering into trades.

LME Base ~~and LMEprecious~~

21. The LME offers contracts in base and ferrous metals (described in the LME Rules as “LME Base Contracts”) ~~and precious metals (described in the LME Rules as “LMEprecious Contracts”).~~]. The LME has seven different categories of membership for the LME Base Service ~~and three different categories of membership for the LMEprecious Service. LMEprecious Contracts are operationally traded in the same way as existing LME Base Contracts, using the same systems, connectivity and rulebook, with some minor differences.~~
22. ~~One of the key differences is that the LME Base Service and the LMEprecious Service differ in the way that Agreed Trades are booked in LMEsmart.~~ Where an Agreed Trade relates to an LME Base Contract, it shall be booked in LMEsmart in a manner to ensure the following allocation:
- a. an Agreed Trade between two Clearing Members shall be allocated to each Clearing Member's house account at LME Clear;
 - b. an Agreed Trade between a Client and the Clearing Member responsible for clearing the Agreed Trade shall result in the allocation of Cleared Contracts to both the Clearing Member's house account and the Clearing Member's appropriate client account at LME Clear; and
 - c. an Agreed Trade between a Client and any other person shall result in the allocation of Cleared Contracts to both the house account of the Clearing Member responsible for clearing the Agreed Trade and the client account of the Clearing Member responsible for clearing the Agreed Trade.

² There are specific arrangements where the Client is a Category 4 Member ~~or LMEprecious Non-Clearing Member~~. These are covered by LME Notice 17/184 dated 25 May 2017.



23. This is sometimes referred to as a “T4” model. In cases (b) and (c) above, the trade will initially be entered into the house account, and the Clearing Member responsible for clearing the Client’s trades must cross the trade out of the house account into the client account.
- ~~24. On the other hand, where an Agreed Trade relates to an LMEprecious Contract it shall be booked in LMEsmart in a manner to ensure the following allocation:~~
- ~~a. an Agreed Trade that is a proprietary trade of an LMEprecious Clearing Member shall be allocated to the house account of the LMEprecious Clearing Member at LME Clear; and~~
 - ~~b. an Agreed Trade made by a Member, and for which an LMEprecious General Clearing Member is responsible for clearing such Agreed Trade, may be allocated either to a house account of the LMEprecious General Clearing Member (where the Agreed Trade is a proprietary trade of the LMEprecious General Clearing Member) or a client account of the LMEprecious General Clearing Member (in any other circumstance).~~
- ~~25. This is sometimes referred to as a “T2” model. In contrast to the T4 model, there is no need initially to enter an Agreed Trade on behalf of a Client into the house account and then cross it out of the house account into the client account.~~
- ~~26.~~24. There are also different settlement mechanisms for different Contracts: ~~most~~**Most** LME Base Contracts are physically deliverable (with the exception of certain Contracts, including Ferrous and Non-Ferrous Cash Settled Futures, and so certain categories of Members must be LMEsword Account Holders for the LME Base Service. ~~LMEprecious Contracts, on the other hand, settle against unallocated precious metal via an account at a Precious Metal Clearer.~~

Principal Nature

- ~~27.~~25. All Contracts are between parties acting as principals. This prevents any party entering into a Contract as agent for someone else but does not prevent an agent arranging a Contract between two parties if the resulting Contract is between disclosed parties, each acting as a principal. It is an essential requirement of a Client Contract that one party must be a Category 1, 2 or 4 Member ~~(or the equivalent LMEprecious category³).~~ A list of Members is on the LME website: www.lme.com. A principal relationship does not mean that Members do not take on quasi-fiduciary responsibilities when they execute trades for Clients. In particular, if a Member undertakes to deliver a particular service, for example, to deal a specific number of lots in the Ring, then it should take care to ensure that it complies with all the terms of such an order.
- ~~28.~~26. In respect of Agreed Trades between Members, an LME broker buying futures or options Contracts from another Member cannot do so as agent for its Client. Where a Member buys metal from another Member with a view to selling that metal to its Client, this is achieved by entering into a back-to-back Client Contract with the Client. Members and Clients can agree the

³ ~~A Category 2 Member is equivalent to an LMEprecious General Clearing Member. A Category 4 Member is equivalent to an LMEprecious Non-Clearing Member.~~



conditions that apply to their Client Contracts. For example, a Client may make it a condition to its entry of a Client Contract that the Member must enter into a back-to-back Agreed Trade with another Member for the metal being bought or sold. This does not make the Client a party to the Agreed Trade with the other Member (or the resulting Cleared Contract with LME Clear) but does create additional duties and obligations owed by the Member under the Client Contract.

~~29-27.~~ Open position statements issued to Clients or Indirect Clients⁴ of a Category 1 or 2 Member must state clearly “THIS IS AN LME REGISTERED CLIENT CONTRACT”. Open position statements issued by Clients who are not Category 1, 2 or 4 Members to their own clients⁵ should not state that the contracts are LME Registered Client Contracts, but may state that they are LME exchange-traded derivatives (or similar) to distinguish them from OTC trades provided that they have entered into Indirect Clearing Arrangements in accordance with the LME Rules. Contract criteria relating to Contracts, including metal specifications, acceptable currencies, prompt dates, option strike prices for metals etc. are detailed in the LME Rules.

OTC Contracts and Use of LME IP

~~30-28.~~ Instead of entering into Contracts governed by the LME Rules, Members and other third parties may enter into OTC contracts either in respect of LME Warrants, or utilising LME reference prices. Where this is the case, the contract should clearly state that “THIS IS NOT AN LME REGISTERED CLIENT CONTRACT”. OTC contracts are not governed by the LME Rules and are not registered with, and/or cleared by, LME Clear. OTC contracts result in a bilateral credit exposure between the two parties. In the case of a party’s default, the general law of insolvency would apply and neither party would benefit from any protection under the LME’s and LME Clear’s purpose-designed default rules. Also, contracts that are opened and closed at the same broker do not benefit from the transparent global pool of competitive offers which the LME facilitates. Members providing their clients with OTC contracts should explain to their clients the difference between OTC contracts and the LME’s Contracts, and the different levels of protection afforded by each.

~~34-29.~~ The LME applies a Financial OTC Booking Fee Policy on Members and other third party financial intermediaries who reference LME prices or other proprietary information in their OTC contracts. Such entities must register with the LME, report relevant OTC trades, and pay the relevant fees⁶. Members and other third parties who reference LME prices or other LME proprietary information in OTC contracts or otherwise use LME proprietary information must ensure that they have entered into the appropriate licences with the LME.

~~32-30.~~ The LME Rules also contain restrictions on: (a) the use of LME Data, Product Specifications or other Intellectual Property Rights for the purpose of trading, clearing or settling Non-LME

⁴ An “Indirect Client” of a Clearing Member pursuant to the LME Rules may include a Client of a Category 4 Member ~~or LME Precious Non-Clearing Member.~~

⁵ Such Clients being indirect clients of the Category 1, 2 or 4 Member but not “Indirect Clients” pursuant to the LME Rulebook.

⁶ For further information, see <https://www.lme.com/Trading/New-initiatives/Financial-OTC-Booking-Fee>.



Platform Contracts; (b) using LME Warrants to settle Non-LME Platform Contracts or the Ex-Cleared functionality of LMEsword to facilitate the settlement of Non-LME Platform Contracts; (c) using the inter-office market to route Non-LME Platform Contracts through the systems of the LME; and (d) bringing onto the LME Non-LME Platform Contracts.

~~33-31~~. Any Member operating electronic dealer-to-client platforms for OTC contracts will also need to consider the relevant provisions of MiFID II relating to systematic internalisers, pre- and post-trade transparency, etc.

Transacting on Behalf of Clients

~~34-32~~. When transacting on the LME's Execution Venues, Members may transact both for their own account (i.e. on a proprietary basis, including where they are making prices on the LME) and on behalf of other market participants (i.e. as broker).

Dual Capacity

~~35-33~~. The LME's market model operates such that Members are able to operate on both a proprietary basis and on behalf of its Clients at the same time, and by the same traders. This means that when trading with a Client, the Member can fill the Client directly from their own proprietary trading book, rather than going to the central market, and thus act both on behalf of the Client and their proprietary interest at the same time. In this context, the Member is acting in so-called "dual capacity". As such, the nature of the contracts traded by the Member with the Client, and the Member with the market, may be different. This differs from so-called "agency execution", whereby the Member solely acts on behalf of the Client in the central market. It should be noted that some execution on the LME market (generally in respect of more liquid prompt dates) may be undertaken under an agency execution model. The complexity of the LME prompt date structure, and the lack of liquidity in the central market for parts of the structure mean that this dual capacity model is advantageous, as it allows Members to directly provide their Clients with liquidity. The dual capacity model does however give rise to specific risks of ensuring a duty of care to the Client. The LME expects Members who are permitted to transact both on their own account and on behalf of other market participants to understand the specific compliance risks of each respective transaction model and have adequate systems in place to mitigate against these risks.

~~36-34~~. Members may act in a particular manner depending on a number of circumstances, including the size of the order, the liquidity of the market at the time the order was placed, and (in relation to Client business), not least, the Client's instructions. Client orders may be filled directly from a Member's "book", or following the purchase/sale of Contracts in the LME market, or a combination of the two.

~~37-35~~. The validity and desirability of this market structure was confirmed during the LME's 2017 Discussion Paper, and the LME is committed to its maintenance for as long as it remains consistent with both the needs of its users and the LME's regulatory obligations.



Considerations Around Dual Capacity Execution

~~38-36~~. Clearly, the dual capacity model places a greater onus on Members to demonstrate that they act in the best interests of their Client. While it is for Members to satisfy themselves and their Clients of the sufficiency of their arrangements, the LME would make certain observations as to the behaviours which it would expect to observe in a dual capacity market. This represents a non-exhaustive list.

~~39-37~~. At the heart of such a model must be a clear understanding between Member and Client as to the basis on which execution is being undertaken - in particular, whether a particular Client order is to be executed under a dual capacity or an agency model. It is expected that Members are clear with their Clients in respect of the execution model.

~~40-38~~. Furthermore, Clients should be made aware of the fact that - as a natural corollary of the dual capacity model - the Member may eventually be able to hedge the risk at a more attractive price than that offered to the Client. The LME understands that Clients are, in general, satisfied with such a model (given that the Member is, in effect, being compensated for accepting the risk associated with the trade).

~~41-39~~. The dual capacity model also places responsibilities on Clients – for example, Clients with specific order requirements must make these known to the Member at the time the order is placed.

~~42-40~~. The LME further recognises that certain Client execution scenarios may be more complex. For example, a Member may seek to trade a Client order in the market, while guaranteeing the Client a particular price for their order. In such a case, it would again clearly be necessary for the Client to be fully aware of the Member's execution approach - and, in particular, the impact on the Client's economic terms, were the Member to subsequently obtain a price better than that guaranteed to the Client.

~~43-41~~. Clearly, the broader rules of market conduct (arising from, without limitation, the European Market Abuse Regulation, as onshored into UK law pursuant to the European Union (Withdrawal) Act 2018 following Brexit, and as amended from time to time) apply to firms trading on the LME market, whether such firms are operating in an agency execution or dual capacity model. Restrictions on activities such as front-running apply when operating in a dual capacity market and also when acting in agency execution - and, in particular, the LME would differentiate between (i) Member trades made purely for the purposes of offsetting risk from a Client position, and (ii) Member proprietary trading. The latter activity, in particular, must be appropriately segregated from Client execution (whether such Client execution is under a dual capacity or agency execution model).

~~44-42~~. Clients should be clear about the conditions that apply to the terms on which their Client Contracts are traded and about the obligations and duties that the Member owes as a result of those conditions. Members should be clear about the duties and obligations they owe as a result of the conditions attaching to the terms on which their Client Contracts are traded.



Rules Preventing Netting Up

~~45.~~~~43.~~ The LME is concerned to ensure that the market can view a transparent post-trade record of market activity and that financial advantage is not extracted by the systematic “netting up” of trading designed to reduce the fee burden. Consequently, Members must ensure that, in respect of trades arranged in the inter-office market or on LMEselect, the details of each Agreed Trade entered into the Matching System constitute the details of a single transaction, without the application of any prior netting, compression or aggregation of multiple transactions. However, prompt date adjustments are permissible. Furthermore, Members must ensure that, in respect of both Client and Members’ house orders normally intended to be entered into LMEselect, Members must not cross-up any such trades in their own systems before they are executed as Agreed Trades in LMEselect.

Conduct of Business Rules

~~46.~~~~44.~~ Members are reminded that they may be subject to certain conduct of business rules, and other regulatory obligations, pursuant to MiFID II and the rules and regulations of the FCA and other relevant regulators. The LME also reminds Members that from time to time regulators, including but not limited to the FCA, issue notices, updates and guidance to the market, which the LME expects its Members to review, consider and, where appropriate, implement into their policies, procedures and systems.

~~47.~~~~45.~~ Members may also be subject to additional regulatory obligations in the jurisdictions in which they are incorporated or otherwise operate. The extent to and way in which these obligations may apply will depend on a range of factors including, amongst others, the nature of the relationship between the relevant Member and its Client, the Execution Venue in question, the terms of business between the Member and its Client, the Member’s regulatory status, and any internal compliance policies and procedures to which the Member is subject.

~~48.~~~~46.~~ Compliance with all applicable rules and regulations is (where applicable) the sole responsibility of the Member and Members must seek their own advice in this regard.

~~49.~~~~47.~~ Whilst by no means an exhaustive list, and of particular interest in the context of Client business, the LME wishes to draw Members’ attention to the following:

Conflicts of interest – Members must take all appropriate steps to identify and to prevent or manage conflicts of interest. This requires Members to actively identify circumstances in which potential and actual conflicts of interest may arise, and to establish arrangements to prevent or manage them effectively. Members should have regard to relevant regulatory requirements and guidance on conflicts of interest, including in relation to Payment for Order Flow or “PFOF”⁷. PFOF is described as occurring when an investment firm (typically a broker who both sources liquidity and executes orders for its client) receives a fee or commission from both the client that

⁷ See particular 2019 FCA guidance at <https://www.fca.org.uk/publication/multi-firm-reviews/payment-for-order-flow-pfof.pdf>.



originates the order and the counterparty the trade is then executed with (typically a market maker or other liquidity provider). The LME is aware that some Members and authorised representatives of Members do act as agents for their clients (for example, when a Member is acting purely in a broking capacity) and Members are therefore reminded of the requirement to comply at all times with their regulatory obligations. In particular, where a Member is sourcing exclusive liquidity (and executing orders) for a specific client, charging the counterparty to the client's transaction creates a conflict the firm cannot manage effectively and so should prevent (i.e. by ceasing to charge PFOF), regardless of the client's categorisation. Even where a Member is sourcing non-exclusive liquidity for eligible counterparties (as defined in the FCA COBS), a conflict of interest is likely to arise and must, at a minimum, be subject to appropriate controls. It is therefore important that firms correctly identify the nature of their activities, on a transaction-by-transaction basis, to ensure the appropriate prevention or management of conflicts of interest from charging both sides of transactions.

Fees and inducements – Members must disclose certain information to Clients in relation to the services to be provided to them. This information includes, amongst other things, information regarding all the costs and related charges that apply to the relevant service(s). In an LME context, this is likely to include any commission or mark-up on LME fees that may be applied by a Member to the fees charged to their Client. Members are expected to periodically review their pricing structures to ensure that when acting in an agency role for their Client, they are not inappropriately charging commission (or however otherwise characterised) to the counterparty that their Client's trade was executed with. Members should also not pay or accept any inducement (i.e. payment and receipt of fees, commissions and non-monetary benefits) in relation to an investment service unless it falls within a "safe harbour" (e.g. where a payment received by the Member is paid to the Client).

Best execution – Members within the scope of the best execution rules are required to take all sufficient steps to obtain the best possible result for their Clients when executing Client orders (or passing them on to other firms for execution). To the extent that firms follow specific instructions from their clients relating to the order, the firm should satisfy its best execution obligations. Members should be aware that in an LME context, the best execution obligation may apply differently depending on whether a Member is acting in a proprietary capacity giving a Client a firm quote, or acting on an agency basis working an order for a Client. Members should ensure that their Clients are aware of the capacity in which the Member is acting, and thus understands the best execution rules that apply.

Client order handling – Members that execute orders on behalf of Clients must implement procedures and arrangements to provide for the prompt, fair and expeditious execution of Client orders relative to other orders or the trading interests of the Member. In accordance with MiFID II and the FCA conduct of business requirements, Members must also satisfy certain conditions when carrying out Client orders, and when carrying out a Client order or a transaction for their own account in aggregation with another Client order.

Risk Management Systems and Controls to Detect, Deter and Deal with Potentially Abusive Trading Activity



~~50-48~~. Members are reminded, pursuant to their obligations under Regulation 12.6(b) of Part 2 of the LME Rulebook, of the importance of having in place appropriate and adequate systems and controls to detect, deter and deal with trading activity that is indicative of market abuse⁸. This section is intended to give guidance as to how the LME would assess the adequacy of a Member's systems and controls during a Member audit or investigation. Members should note disciplinary proceedings brought by the LME against Members for systems and controls failings, resulting in financial penalties for the Members concerned.

~~51-49~~. When undertaking an assessment into the adequacy of their systems and controls, the LME considers it prudent for Members to produce a market abuse risk assessment in order to assess the potential market abuse risks to which they are exposed. Failure to have produced a market abuse risk assessment may constitute evidence of poor systems and controls.

~~52-50~~. Members should also have regard to the following non-exhaustive list of factors when considering their compliance with their obligations pursuant to Regulation 12.6(b) of Part 2 of the LME Rulebook:

- a. the extent to which the systems and controls (including but not limited to electronic surveillance system(s)) are appropriately calibrated considering and taking into account the nature, size and complexity of the business that a Member conducts on the LME market (whether such business is conducted by a Member, a Member's Clients, or the underlying clients of a Member's Clients). Members who choose to offer Direct Electronic Access ("DEA") to their Clients are reminded that they retain responsibility for the trading of those Clients⁹. Such Members should consider putting in place policies and procedures that consider the suitability of DEA Clients in order to ensure that DEA Clients comply with the LME Rulebook at all times;
- b. the extent to which the Member has suitable arrangements to identify suspicious trading activity and undertakes appropriate action when such activity is identified (such as, but not limited to, investigating such activity in a timely manner);
- c. the extent to which the Member has control over its surveillance activity and has appropriate oversight of any outsourced arrangements;

⁸ For the avoidance of doubt, the obligations of a Member under Regulation 12.6(b) of Part 2 of the LME Rulebook apply not only to the obligation to have in place appropriate and adequate risk management systems in order to detect, deter and deal with trading activity that is indicative of market abuse, but also to the obligation to have in place appropriate and adequate risk management systems that enable a Member to comply with all of its obligations under the LME Rulebook.

⁹ Regulation 12.9, Part 3 of the LME Rulebook states that: "*LME Select Participants may offer order-routing facilities (also known as direct electronic access under MiFID II) to a Client, but in such cases the LME Select Participant retains responsibility for, and remains liable for, all trading activity conducted by such Client, including all orders submitted and trades executed using the order-routing facility.*"



- d. the frequency with which assessments are performed into the adequacy of a Member's risk management systems and controls;
- e. the records that are maintained with regard to surveillance arrangements. This would include, without limitation, records of how systems, such as surveillance systems, are calibrated, and how decisions are made as to calibration amendments, as well as e.g. records of risk assessments undertaken;
- f. the policies, procedures and processes that are in place to detect, deter and deal with potential instances of market abuse, including the frequency with which these policies, procedures and processes are reviewed and updated where necessary and how they are communicated to relevant staff;
- g. the extent to which staff are appropriately qualified to detect, deter and deal with potential instances of market abuse;
- h. the extent to which arrangements for staff involved in surveillance activities (e.g. responsibilities, reporting lines etc.) are appropriate and ensure freedom from conflicts of interest;
- i. the extent to which staff receive appropriate and regular training regarding, amongst other things, activity constituting market abuse, and an understanding of the obligations of a Member under the EU Market Abuse Regulation;
- j. the extent to which senior management have appropriate oversight of the surveillance function, including but not limited to, undertaking quality assurance checks of the work performed by surveillance staff in relation to the detection of potential instances of market abuse, the availability of management information with regard to potential instances of market abuse, and documented escalation procedures; and
- k. the adequacy of pre-trade controls that are in place to assist in the prevention of disorderly trading on the LME.

ORDER STYLES

~~53-51~~. The principal order styles for Client orders are summarised below. These order styles do not represent all possible methods of order execution on the LME. Members and Clients should ensure that orders are communicated in meaningful terms that deliver the required execution in accordance with LME Rules.

Ring

~~54-52~~. Client orders are not traded in the Ring, so an order using the term "in/on the Ring or during the Ring/kerb" will be executed on the basis of the prices traded/quoted in the Ring or during the particular Ring or kerb session. If a Client requires their order to be "shown" or traded across the Ring then they should make this requirement known to their executor, who may or may not



accept this as a term of the order. The equivalent Member-to-Member Agreed Trade for a Client order might not replicate its terms. As the Client is not a party to any Cleared Contracts which arise from Agreed Trades made in the Ring, in specifying Ring/kerb, the Client is merely identifying a pricing mechanism. A Member which undertakes to match a price traded in the Ring/kerb is not necessarily undertaking that it will trade during that Ring/kerb, only that it may do so. However, a Client may place an order with the specific request that the Member concludes an Agreed Trade in the Ring, replicating its order. In such circumstance, the Category 1 Member can only trade this order by open outcry in the Ring.

~~55-53~~. If a Client trades at the prevailing market quote proffered in the Ring/kerb, their executor is not necessarily obliged to effect an Agreed Trade in the Ring at the same price. This can lead to situations where the Client has traded at the prevailing market quote, without that same price trading in open outcry across the Ring. However, if the instructions from the Client are to achieve a specific price i.e. close of Ring 2, then this is the price that should be given, if that specific order is accepted.

~~56-54~~. The timings for the acceptance of orders from a Client to a Member which are executed “on the close” of the relevant Ring/Kerb should be agreed between the two parties. The timings may be dependent on the nature of the order (for example large in size orders may have different timings from smaller orders). However, the instructions should be clearly understood so there is no doubt how and when the order may be executed by the Member. If an ‘*on the close*’ order is not placed in sufficient time before the close of the relevant Ring/Kerb, the Member may reserve the right to decline acceptance of any such order.

Market

~~57-55~~. In normal circumstances a market order is one executed on a timely basis at the prevailing market price. As mentioned above, at certain times of the business day, trading is taking place simultaneously in the Ring or kerb, on LMEselect, and in the inter-office market. Traditionally, when open outcry trading is in session, the market tends to be led by activity within the Ring/kerb. At other times, the market is split between inter-office trading and trading on LMEselect. During LMEselect trading periods, firm prices are available on LMEselect and the LMEselect page on information vendors’ systems. Members should ensure they consider their best execution obligations as defined by prevailing regulations when executing an “at market” order on behalf of a Client.

Best

~~58-56~~. “At best” orders may be executed on any of the Ring, inter-office market and on LMEselect. Inter-office trades rely upon the Members’ skill in determining the level of the market at any particular time. Best orders received during Ring/kerb times may not result in the Client receiving the “best” price achieved during the session if the price improves after the Member has filled the Client order. At any given time, the best price on LMEselect will be displayed on the system and by the market data vendors. Clients should be aware that depending on market conditions, the best price may move during the period from when the order was placed and when it was



executed. Members should ensure they consider their best execution obligations as defined by prevailing regulations when executing an at best order on behalf of a Client.

Close

~~59-57~~. Most orders placed “on the close”, or “market on close” (“MOC”) are for either the close of the second Ring (i.e. the Official Price) or the final kerb (i.e. the Closing Price). Both of these prices are published. Closing prices for other sessions are harder to determine, although the LME does publish the Unofficial Closing Prices which are established at the close of the third Ring. In all circumstances, Clients and Members need to agree the style of execution i.e. bid/offer, mean or traded price. Members may not always be able to guarantee execution (price or volume) due to prevailing market conditions.

Open

~~60-58~~. Clients placing orders to trade on the opening of a market session must provide clear instructions to the Member which indicate how this order should be activated i.e. basis the opening bid/offer or basis the first trade in the session. Clients will also need to inform their executor of their requirements if the executor is unable to fill the order basis the opening price in its entirety, due to market constraints such as insufficient liquidity. Clients may place orders with Members for LMEselect that can be placed into the system for activation when the market opens.

Resting Orders

~~64-59~~. When placing resting orders such as “good ‘til cancelled” (“GTC”, or any derivations thereof) or stop loss orders, Clients should ensure that they are in agreement with their executor’s definition of the trigger point of the order. Usually, this is interpreted as being the point when the order price is seen to be trading in the market, but it is possible to request the order be activated when the order level is either bid or offered as appropriate, via the prevailing market quote.

~~62-60~~. It is possible for a Client not to receive a fill on a resting order despite the order price trading in the market. This could be due to a number of circumstances such as order priority etc. Whatever the reason, the executor should be able to provide the Client with a full explanation of why it was unable to fill the order.

~~63-61~~. Clients should be aware that resting orders might be activated during periods of illiquidity in the market. As previously mentioned, this could result in the trade not being filled, or for “stop” orders, a worse fill than anticipated (known as “slippage”). Clients should ensure the executor is fully aware of their requirements regarding the execution of an order, and adheres to any limitations, especially if the Client is not in contact with the market / Member when the trigger point is reached.

LMEselect

~~64-62~~. It is possible for Clients to route orders to LMEselect, or to ask Members to place resting orders in LMEselect, on their behalf. LMEselect has multiple available order types and validity conditions, including but not limited to: GTC (for Cash and 3 month prompt dates only), “Good



for day”, “Iceberg”¹⁰, “Scaling”¹¹ and “Fill or Kill” orders¹². Further information on available order types, their characteristics and any restrictions on their use, is set out in the LMEselect User Guide, the current version of which is available on the LME website. Members are encouraged to read the LMEselect User Guide carefully to ensure compliance with any restrictions¹³.

SEGREGATION & PORTABILITY

Segregation

~~65-~~63. When registering Agreed Trades in the Matching System, a Clearing Member must specify to which account at the Clearing House the resulting Cleared Contracts should be allocated. Where any Cleared Contract is to be allocated to a client account (because the trade has been executed for a Client) the registration must align the Contract to a specific omnibus (which may be net or gross for Direct Clients or net for Indirect Clients) or individually segregated account at LME Clear. Members are required to offer Clients a choice of accounts. The distinguishing factor between the two is: either (i) an omnibus account which has assets and positions allocated to it for multiple Clients, or multiple Clients with Indirect Clients; or (ii) an individually segregated account which has assets and positions allocated to it for a single Client, or a single Client with Indirect Client/s. Clearing Members, Clients and Indirect Clients wishing to know more about segregation options may review LME Clear’s EMIR Article 39(7) disclosure on the LME Clear website.

Portability

~~66-~~64. Where LME Clear has declared an Event of Default in relation to a Clearing Member and a Client wishes to transfer its positions from an account maintained with the defaulting Clearing Member to another Clearing Member, it must notify¹⁴ LME Clear in accordance with the procedures set out by LME Clear from time to time. LME Clear will effect the transfer of positions and, where

¹⁰ Iceberg orders allow a trader to place an order without disclosing the full order quantity to the market. The trader specifies the open quantity amount seen by the market and the subsequent open order amounts at the time of the order placement. Any subsequent amendments to open quantity amount only take effect with the next order quantity to be placed; the current open quantity seen by the market does not change.

¹¹ A scaling order allows the user to automatically place repeat orders for an outright valid prompt date with a scaled order price. i.e. scaled down buying or scaled up selling; although the user is not forced to change the order price and therefore can enter repeat order at the same price level. This function will place an order with the same quantity and prompt date with an adjusted order price if desired, once the previous order has traded in the LMEselect system.

¹² A Fill and Kill Order is entered at a specific price with the intention to execute immediately and therefore fill all or part of, the order and immediately cancel any unfulfilled balance.

¹³ By way of example, whilst it is technologically possible for Members to submit discretionary orders in relation to LME Contracts, use of this order type (whether submitted via the LMEselect trading GUI, for example, or via any third party software application that utilises native LMEselect functionality for the discretionary order type) was prohibited by LME Notice 20/283. Similarly, Notice 20/283 also prohibits the use of native iceberg functionality in relation to Cash-Settled Futures Contracts.

¹⁴ It is not possible to accept such notifications from Indirect Clients, and the request must always be made by the Client.



possible, assets subject to and in accordance with the LME Clear Rules¹⁵. Where the Client fails to submit its request in accordance with the LME Clear procedures or porting is not possible in accordance with the LME Clear Rules, the positions in the relevant account may be closed out by LME Clear and assets in the account used to offset any losses in the account. Members, Clients and Indirect Clients wishing to know more about default porting may review LME Clear's Article 39(7) disclosure on the LME Clear website.

¹⁵ The LME Rules contain provisions to ensure that, where any Cleared Contract is ported in accordance with LME Clear Rules, the back-to-back Client Contracts shall also port.



LME Matching Rules

Version 2.2



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. Requests for extensions to the TOM matching deadline 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

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

	LME Base Service	
Ring	See the "Trading Time and Dates" section of the www.lme.com	
LME Select	01:00 – 19:00	
Inter-office	24 hours	



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. Cash-Settled Futures, LMEmini Contracts, Monthly Average Futures, and Premium Contracts 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 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-electronically¹ :
 - **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 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.

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



- **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.

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



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 33 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 in the Ring during the relevant Ring or kerb session, basis a price(s) discovered in the Ring³ 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

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. This code should only be used in conjunction with the inter-office venue.

³ This applies to prices in relation to which the primary pricing methodology is Ring-based, notwithstanding that prices in relation to which the primary pricing methodology is electronic may (e.g. in business continuity scenarios) utilise Ring activity as part of the pricing process.



- **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. This code should only be used in conjunction with the inter-office venue.
 - **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. This code should only be used in conjunction with the inter-office venue.
 - **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 (i.e. 10 minutes prior to the 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 permissible Ring session or "D 1-2" if agreed during the relevant kerb session (see also paragraph 16 above).
 - **Inter-office** – the time at which the trade was agreed⁴, 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;

⁴ 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.



- **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
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.
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 36-42 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 (“**EFP**”) 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. 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.



34. 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.
35. 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

36. 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.
37. 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.
38. 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.
39. 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.
40. 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.
41. 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.

42. 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

43. The process for use of the "UNA" mnemonic in Give-Ups is set out below, particularly at paragraphs 50 to 60. 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

44. 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.
45. 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

46. 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.
47. 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.

48. 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 50 to 60 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.
49. 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".
50. 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.
51. 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 52 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.
52. 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.
53. 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.
 54. 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.
 55. 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.
 56. 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.
 57. 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.
 58. 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.



59. 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

60. 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.
61. 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.
62. 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.
63. 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.

64. 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

65. 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.
66. 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.
67. Member must maintain a full audit trail for the OTC Take Off transaction including the client instructions to take each trade off exchange.
68. 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”)

69. 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.

70. 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.
71. 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".
72. 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

73. 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



74. 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 60 – 68)
 - (b) Transfer (as described in paragraphs 14 and 28 – 35)
 - (c) Reversal/Correction (as described in paragraphs 36 – 42)
 - (d) Financing (as described in paragraphs 14 and 44 – 45)
 - (e) Exception Reportable / Exception Non Reportable (as described in paragraph 14)
75. 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.



Document Change History

Date	Version	Author(s)	Summary of Changes
Previous versions are not listed			
01 October 2021	2.0	Post-Trade Operations	Clarifications regarding eligible Basis Trades (LME Notice 21/161)
07 October 2021	2.1	Post-Trade Operations	Further clarification regarding eligible Basis Trades
25 May 2022	2.2	Post-Trade Operations	Removal of LMEprecious provisions from the Matching Rules

A GUIDE TO THE STRUCTURE, MARKET TERMINOLOGY AND ORDER EXECUTION OF THE LONDON METAL EXCHANGE

INTRODUCTION AND PURPOSE

1. This Guide is designed to provide market participants on the London Metal Exchange (the “LME”), and particularly Clients of Members, with an overview of the structure of the LME, market terminology, and order execution. It is also intended as guidance to help participants interpret the Rules and Regulations of the LME (the “LME Rulebook”) and any Notice issued pursuant to Regulation 2 of Part 1 of the LME Rulebook (together the “LME Rules”) (and also in certain circumstances the Rules and Procedures of LME Clear Limited (the “LME Clear Rules”)) and to outline certain behaviours the LME expects of its market participants. It is not a comprehensive trading guide, nor a complete guide to market terminology. Market participants should always ensure that their requirements are explained in detail to the Member responsible for order execution.
2. This Guide is not a substitute for reading the LME Rules, the LME Clear Rules or the terms of business agreed between Clients and Members. In the event of any conflict between this Guide and either the LME Rules or the LME Clear Rules, the LME Rules and the LME Clear Rules shall prevail.
3. Capitalised terms not otherwise defined herein shall have the meaning ascribed to them in the LME Rulebook, as amended from time to time.

THE LME

Execution Venues

4. Trades on the LME may be agreed on any of the LME’s three trading venues (defined as Execution Venues in the LME Rulebook): by open outcry in the Ring (during ring and kerb sessions), between Members in the inter-office market, and over the LME’s electronic trading system, LMEselect. LME trading times are available on the LME website at <https://www.lme.com/en-GB/Trading/Trading-venues/Trading-times#tabIndex=0>.
5. Depending on the time of day, it is possible for Members to deal in the inter-office market, by LMEselect, or in the Ring. Clients should specify which mechanism their broker should use to effect an order, where they have a preference.

The Ring

6. Only Category 1 Members may trade in the Ring.
7. Clients can follow the Ring market activity by monitoring quoted and traded prices disseminated via the LME market data dissemination system, or by listening to the simultaneous floor commentary provided by Member(s). The LME market data dissemination system publishes



quotes and trades during Ring and kerb sessions to market data vendor information services, and via its own market data platforms.

8. Members can continue to “make a market” when requested by a Client during the Ring and kerb sessions, although this is entirely at the Member’s discretion. Alternatively, the Client can decide whether to place an order.
9. Certain Contracts¹ are not available for trading in the Ring.

Inter-office

10. Inter-office trading is conducted between Members, or between Members and their Clients, by telephone or by electronic means. On contacting a Member for a quote, Clients will usually be provided with the Member’s current bid and offer. The Client may trade on this quote, call another Member in an attempt to improve the quote, leave a resting order with a Member, or wait and monitor prices on the LME market data dissemination system.
11. To ensure adequate transparency in this market (as required by MiFIR), the LME operates a Systematic Fixed Price Auction (“SFPA”). For those in scope orders, the auction process will start at the point the LMEsmart matches the PTT Orders and last for a period of 30 seconds. During this period, any Member (other than a RIB) is able to enter their own bids/offers into that auction in LMEsmart, at the same price as the originating orders. Upon the completion of the SFPA, the bids and offers remaining in LMEsmart will be matched on a time priority basis.

LMEselect

12. Category 1, 2, 3 and 4 Members may be LMEselect Participants and enter into Contracts on LMEselect. In addition, Category 1, 2 and 4 Members may make available to a Client the order-routing facility of the LMEselect API.
13. LMEselect allows LMEselect Participants to trade Contracts, including (but not limited to) Futures Contracts, Metal Options, Traded Average Price Options, Monthly Average Price Futures, Ferrous Cash Settled Futures, Non-Ferrous Cash Settled Futures and LMEmini Contracts. As explained above, some brokers offer their Clients an order-routing facility via an API where they can place orders, and execute trades.
14. Subject to relevant licensing requirements, market data vendors may display, amongst other things, bid and offer prices available on LMEselect, the total volumes available at these prices (subject to iceberg orders – see paragraph 62 below), and the price and volume of each trade.
15. Where a Member permits a Client to use the order-routing facility of the LMEselect API, and, as a result, (a) one or more Cleared Contracts comes into effect, and (b) one or more Client

¹ Metal Options, Traded Average Price Options, Monthly Average Futures, LMEmini Contracts, Steel Scrap, Steel Rebar, Steel HRC FOB China, Steel HRC N. America, Cash Settled Cobalt, Molybdenum and Alumina.



Contracts come into effect, then the Client Contract must be on the same commercial terms as the relevant Cleared Contract (save that it may be marked up or down to reflect a commission payable by the Client). The Member must ensure that the Client Contract and the relevant Cleared Contracts are inputted into the Matching System, and that Client orders are not offset against each other (for further information, see the section entitled “Transacting on behalf of Clients” below).

16. The LME understands that Members may offer over-the-counter (“OTC”) contracts to their clients on the basis of electronic orders sent to the Member (for example through the Member’s own dealing system). The Member may directly hedge such OTC contracts on LMEselect (by entering into a Cleared Contract, but without giving rise to a back-to-back Client Contract), provided that the OTC contracts will be considered Relevant OTC Contracts for the purpose of the LME’s Financial OTC Booking Fee Policy (for further information on this Policy, see the section entitled “OTC Contracts and Use of LME IP” below).

Contract Formation and Clearing

17. Trades agreed on the LME shall give rise either to (a) Cleared Contracts, or (b) Cleared Contracts and back-to-back Client Contracts. Each Trading Member is responsible for the input into the LME’s Matching System, LMEsmart, of all Agreed Trades by it in relation to Contracts.
18. Cleared Contracts are cleared by the LME’s appointed clearing house, LME Clear. LME Clear clears Contracts on an open offer basis. LME Clear will make an offer to each party to the trade: it will offer to act as the buyer to the party who wishes to be the seller, and it will offer to act as the seller to the party who wishes to be the buyer. On acceptance of LME Clear’s offer by each party, two Cleared Contracts will be formed: one between LME Clear and the seller; another between LME Clear and the buyer. The time of execution will depend on the Execution Venue:
 - transactions (i.e. Agreed Trades) agreed in the Ring – the Cleared Contracts will arise at the time the trade is agreed in the Ring;
 - Agreed Trades arising in LMEselect – the execution time of the Cleared Contracts will be the point at which LMEselect confirms that the Agreed Trade has been matched and that all pre-execution checks have been satisfied; and
 - Agreed Trades in the inter-office telephone market – these will initially form a Contingent Agreement to Trade, the particulars of which the parties must then submit to the Matching System. The time of execution of the Cleared Contracts will be at the point that the Matching System confirms that the trades have been matched and that all pre-execution checks have been satisfied. This remains the case for trades that arise from a SFPA (save in the case of trades between RIBs and their clients, which shall initially give rise to an obligation on the RIB to submit the particulars of the initiating auction pair to the Matching System, rather than giving rise to a Contingent Agreement to Trade – see further Part 3 of the LME Rules.)



19. Where an Agreed Trade is made with a Client, upon execution of the Agreed Trade, Cleared Contracts shall be formed between the responsible Clearing Member and LME Clear and a back-to-back Client Contract shall automatically and immediately come into effect between the Client and the Member on the same terms as the Cleared Contract². Where the Clearing Member facilitates Indirect Clearing arrangements, i) a further Client Contract will arise between the Client and the Indirect Client (where the Client is a Category 4 Member) or ii) a back-to-back exchange traded derivatives contract will be formed between the Client and the Indirect Client (where the Client is not a Category 4 Member).
20. In order to maintain the smooth and orderly operation of the market, the LME and LME Clear will carry out a number of pre-trade and post-trade checks. Further, Members must have adequate processes in place to ensure both they and their Clients have sufficient collateral in place before entering into trades.

LME Base

21. The LME offers contracts in base and ferrous metals (described in the LME Rules as “LME Base Contracts”). The LME has seven different categories of membership for the LME Base Service.
22. Where an Agreed Trade relates to an LME Base Contract, it shall be booked in LMEsmart in a manner to ensure the following allocation:
 - a. an Agreed Trade between two Clearing Members shall be allocated to each Clearing Member's house account at LME Clear;
 - b. an Agreed Trade between a Client and the Clearing Member responsible for clearing the Agreed Trade shall result in the allocation of Cleared Contracts to both the Clearing Member's house account and the Clearing Member's appropriate client account at LME Clear; and
 - c. an Agreed Trade between a Client and any other person shall result in the allocation of Cleared Contracts to both the house account of the Clearing Member responsible for clearing the Agreed Trade and the client account of the Clearing Member responsible for clearing the Agreed Trade.
23. This is sometimes referred to as a “T4” model. In cases (b) and (c) above, the trade will initially be entered into the house account, and the Clearing Member responsible for clearing the Client's trades must cross the trade out of the house account into the client account.
24. Most LME Base Contracts are physically deliverable (with the exception of certain Contracts, including Ferrous and Non-Ferrous Cash Settled Futures, and so certain categories of Members must be LMEsword Account Holders for the LME Base Service.

² There are specific arrangements where the Client is a Category 4 Member. These are covered by LME Notice 17/184 dated 25 May 2017.



Principal Nature

25. All Contracts are between parties acting as principals. This prevents any party entering into a Contract as agent for someone else but does not prevent an agent arranging a Contract between two parties if the resulting Contract is between disclosed parties, each acting as a principal. It is an essential requirement of a Client Contract that one party must be a Category 1, 2 or 4 Member. A list of Members is on the LME website: www.lme.com. A principal relationship does not mean that Members do not take on quasi-fiduciary responsibilities when they execute trades for Clients. In particular, if a Member undertakes to deliver a particular service, for example, to deal a specific number of lots in the Ring, then it should take care to ensure that it complies with all the terms of such an order.
26. In respect of Agreed Trades between Members, an LME broker buying futures or options Contracts from another Member cannot do so as agent for its Client. Where a Member buys metal from another Member with a view to selling that metal to its Client, this is achieved by entering into a back-to-back Client Contract with the Client. Members and Clients can agree the conditions that apply to their Client Contracts. For example, a Client may make it a condition to its entry of a Client Contract that the Member must enter into a back-to-back Agreed Trade with another Member for the metal being bought or sold. This does not make the Client a party to the Agreed Trade with the other Member (or the resulting Cleared Contract with LME Clear) but does create additional duties and obligations owed by the Member under the Client Contract.
27. Open position statements issued to Clients or Indirect Clients³ of a Category 1 or 2 Member must state clearly "THIS IS AN LME REGISTERED CLIENT CONTRACT". Open position statements issued by Clients who are not Category 1, 2 or 4 Members to their own clients⁴ should not state that the contracts are LME Registered Client Contracts, but may state that they are LME exchange-traded derivatives (or similar) to distinguish them from OTC trades provided that they have entered into Indirect Clearing Arrangements in accordance with the LME Rules. Contract criteria relating to Contracts, including metal specifications, acceptable currencies, prompt dates, option strike prices for metals etc. are detailed in the LME Rules.

OTC Contracts and Use of LME IP

28. Instead of entering into Contracts governed by the LME Rules, Members and other third parties may enter into OTC contracts either in respect of LME Warrants, or utilising LME reference prices. Where this is the case, the contract should clearly state that "THIS IS NOT AN LME REGISTERED CLIENT CONTRACT". OTC contracts are not governed by the LME Rules and are not registered with, and/or cleared by, LME Clear. OTC contracts result in a bilateral credit exposure between the two parties. In the case of a party's default, the general law of insolvency would apply and neither party would benefit from any protection under the LME's and LME Clear's purpose-designed default rules. Also, contracts that are opened and closed at the same

³ An "Indirect Client" of a Clearing Member pursuant to the LME Rules may include a Client of a Category 4 Member.

⁴ Such Clients being indirect clients of the Category 1, 2 or 4 Member but not "Indirect Clients" pursuant to the LME Rulebook.



broker do not benefit from the transparent global pool of competitive offers which the LME facilitates. Members providing their clients with OTC contracts should explain to their clients the difference between OTC contracts and the LME's Contracts, and the different levels of protection afforded by each.

29. The LME applies a Financial OTC Booking Fee Policy on Members and other third party financial intermediaries who reference LME prices or other proprietary information in their OTC contracts. Such entities must register with the LME, report relevant OTC trades, and pay the relevant fees⁵. Members and other third parties who reference LME prices or other LME proprietary information in OTC contracts or otherwise use LME proprietary information must ensure that they have entered into the appropriate licences with the LME.
30. The LME Rules also contain restrictions on: (a) the use of LME Data, Product Specifications or other Intellectual Property Rights for the purpose of trading, clearing or settling Non-LME Platform Contracts; (b) using LME Warrants to settle Non-LME Platform Contracts or the Ex-Cleared functionality of LMEsword to facilitate the settlement of Non-LME Platform Contracts; (c) using the inter-office market to route Non-LME Platform Contracts through the systems of the LME; and (d) bringing onto the LME Non-LME Platform Contracts.
31. Any Member operating electronic dealer-to-client platforms for OTC contracts will also need to consider the relevant provisions of MiFID II relating to systematic internalisers, pre- and post-trade transparency, etc.

Transacting on Behalf of Clients

32. When transacting on the LME's Execution Venues, Members may transact both for their own account (i.e. on a proprietary basis, including where they are making prices on the LME) and on behalf of other market participants (i.e. as broker).

Dual Capacity

33. The LME's market model operates such that Members are able to operate on both a proprietary basis and on behalf of its Clients at the same time, and by the same traders. This means that when trading with a Client, the Member can fill the Client directly from their own proprietary trading book, rather than going to the central market, and thus act both on behalf of the Client and their proprietary interest at the same time. In this context, the Member is acting in so-called "dual capacity". As such, the nature of the contracts traded by the Member with the Client, and the Member with the market, may be different. This differs from so-called "agency execution", whereby the Member solely acts on behalf of the Client in the central market. It should be noted that some execution on the LME market (generally in respect of more liquid prompt dates) may be undertaken under an agency execution model. The complexity of the LME prompt date structure, and the lack of liquidity in the central market for parts of the structure mean that this dual capacity model is advantageous, as it allows Members to directly provide their Clients with

⁵ For further information, see <https://www.lme.com/Trading/New-initiatives/Financial-OTC-Booking-Fee>.



liquidity. The dual capacity model does however give rise to specific risks of ensuring a duty of care to the Client. The LME expects Members who are permitted to transact both on their own account and on behalf of other market participants to understand the specific compliance risks of each respective transaction model and have adequate systems in place to mitigate against these risks.

34. Members may act in a particular manner depending on a number of circumstances, including the size of the order, the liquidity of the market at the time the order was placed, and (in relation to Client business), not least, the Client's instructions. Client orders may be filled directly from a Member's "book", or following the purchase/sale of Contracts in the LME market, or a combination of the two.
35. The validity and desirability of this market structure was confirmed during the LME's 2017 Discussion Paper, and the LME is committed to its maintenance for as long as it remains consistent with both the needs of its users and the LME's regulatory obligations.

Considerations Around Dual Capacity Execution

36. Clearly, the dual capacity model places a greater onus on Members to demonstrate that they act in the best interests of their Client. While it is for Members to satisfy themselves and their Clients of the sufficiency of their arrangements, the LME would make certain observations as to the behaviours which it would expect to observe in a dual capacity market. This represents a non-exhaustive list.
37. At the heart of such a model must be a clear understanding between Member and Client as to the basis on which execution is being undertaken - in particular, whether a particular Client order is to be executed under a dual capacity or an agency model. It is expected that Members are clear with their Clients in respect of the execution model.
38. Furthermore, Clients should be made aware of the fact that - as a natural corollary of the dual capacity model - the Member may eventually be able to hedge the risk at a more attractive price than that offered to the Client. The LME understands that Clients are, in general, satisfied with such a model (given that the Member is, in effect, being compensated for accepting the risk associated with the trade).
39. The dual capacity model also places responsibilities on Clients – for example, Clients with specific order requirements must make these known to the Member at the time the order is placed.
40. The LME further recognises that certain Client execution scenarios may be more complex. For example, a Member may seek to trade a Client order in the market, while guaranteeing the Client a particular price for their order. In such a case, it would again clearly be necessary for the Client to be fully aware of the Member's execution approach - and, in particular, the impact on the Client's economic terms, were the Member to subsequently obtain a price better than that guaranteed to the Client.



41. Clearly, the broader rules of market conduct (arising from, without limitation, the European Market Abuse Regulation, as onshored into UK law pursuant to the European Union (Withdrawal) Act 2018 following Brexit, and as amended from time to time) apply to firms trading on the LME market, whether such firms are operating in an agency execution or dual capacity model. Restrictions on activities such as front-running apply when operating in a dual capacity market and also when acting in agency execution - and, in particular, the LME would differentiate between (i) Member trades made purely for the purposes of offsetting risk from a Client position, and (ii) Member proprietary trading. The latter activity, in particular, must be appropriately segregated from Client execution (whether such Client execution is under a dual capacity or agency execution model).
42. Clients should be clear about the conditions that apply to the terms on which their Client Contracts are traded and about the obligations and duties that the Member owes as a result of those conditions. Members should be clear about the duties and obligations they owe as a result of the conditions attaching to the terms on which their Client Contracts are traded.

Rules Preventing Netting Up

43. The LME is concerned to ensure that the market can view a transparent post-trade record of market activity and that financial advantage is not extracted by the systematic “netting up” of trading designed to reduce the fee burden. Consequently, Members must ensure that, in respect of trades arranged in the inter-office market or on LMEselect, the details of each Agreed Trade entered into the Matching System constitute the details of a single transaction, without the application of any prior netting, compression or aggregation of multiple transactions. However, prompt date adjustments are permissible. Furthermore, Members must ensure that, in respect of both Client and Members’ house orders normally intended to be entered into LMEselect, Members must not cross-up any such trades in their own systems before they are executed as Agreed Trades in LMEselect.

Conduct of Business Rules

44. Members are reminded that they may be subject to certain conduct of business rules, and other regulatory obligations, pursuant to MiFID II and the rules and regulations of the FCA and other relevant regulators. The LME also reminds Members that from time to time regulators, including but not limited to the FCA, issue notices, updates and guidance to the market, which the LME expects its Members to review, consider and, where appropriate, implement into their policies, procedures and systems.
45. Members may also be subject to additional regulatory obligations in the jurisdictions in which they are incorporated or otherwise operate. The extent to and way in which these obligations may apply will depend on a range of factors including, amongst others, the nature of the relationship between the relevant Member and its Client, the Execution Venue in question, the terms of business between the Member and its Client, the Member’s regulatory status, and any internal compliance policies and procedures to which the Member is subject.



46. Compliance with all applicable rules and regulations is (where applicable) the sole responsibility of the Member and Members must seek their own advice in this regard.
47. Whilst by no means an exhaustive list, and of particular interest in the context of Client business, the LME wishes to draw Members' attention to the following:

Conflicts of interest – Members must take all appropriate steps to identify and to prevent or manage conflicts of interest. This requires Members to actively identify circumstances in which potential and actual conflicts of interest may arise, and to establish arrangements to prevent or manage them effectively. Members should have regard to relevant regulatory requirements and guidance on conflicts of interest, including in relation to Payment for Order Flow or “PFOF”⁶. PFOF is described as occurring when an investment firm (typically a broker who both sources liquidity and executes orders for its client) receives a fee or commission from both the client that originates the order and the counterparty the trade is then executed with (typically a market maker or other liquidity provider). The LME is aware that some Members and authorised representatives of Members do act as agents for their clients (for example, when a Member is acting purely in a broking capacity) and Members are therefore reminded of the requirement to comply at all times with their regulatory obligations. In particular, where a Member is sourcing exclusive liquidity (and executing orders) for a specific client, charging the counterparty to the client's transaction creates a conflict the firm cannot manage effectively and so should prevent (i.e. by ceasing to charge PFOF), regardless of the client's categorisation. Even where a Member is sourcing non-exclusive liquidity for eligible counterparties (as defined in the FCA COBS), a conflict of interest is likely to arise and must, at a minimum, be subject to appropriate controls. It is therefore important that firms correctly identify the nature of their activities, on a transaction-by-transaction basis, to ensure the appropriate prevention or management of conflicts of interest from charging both sides of transactions.

Fees and inducements – Members must disclose certain information to Clients in relation to the services to be provided to them. This information includes, amongst other things, information regarding all the costs and related charges that apply to the relevant service(s). In an LME context, this is likely to include any commission or mark-up on LME fees that may be applied by a Member to the fees charged to their Client. Members are expected to periodically review their pricing structures to ensure that when acting in an agency role for their Client, they are not inappropriately charging commission (or however otherwise characterised) to the counterparty that their Client's trade was executed with. Members should also not pay or accept any inducement (i.e. payment and receipt of fees, commissions and non-monetary benefits) in relation to an investment service unless it falls within a “safe harbour” (e.g. where a payment received by the Member is paid to the Client).

Best execution – Members within the scope of the best execution rules are required to take all sufficient steps to obtain the best possible result for their Clients when executing Client orders

⁶ See particular 2019 FCA guidance at <https://www.fca.org.uk/publication/multi-firm-reviews/payment-for-order-flow-pfof.pdf>.



(or passing them on to other firms for execution). To the extent that firms follow specific instructions from their clients relating to the order, the firm should satisfy its best execution obligations. Members should be aware that in an LME context, the best execution obligation may apply differently depending on whether a Member is acting in a proprietary capacity giving a Client a firm quote, or acting on an agency basis working an order for a Client. Members should ensure that their Clients are aware of the capacity in which the Member is acting, and thus understands the best execution rules that apply.

Client order handling – Members that execute orders on behalf of Clients must implement procedures and arrangements to provide for the prompt, fair and expeditious execution of Client orders relative to other orders or the trading interests of the Member. In accordance with MiFID II and the FCA conduct of business requirements, Members must also satisfy certain conditions when carrying out Client orders, and when carrying out a Client order or a transaction for their own account in aggregation with another Client order.

Risk Management Systems and Controls to Detect, Deter and Deal with Potentially Abusive Trading Activity

48. Members are reminded, pursuant to their obligations under Regulation 12.6(b) of Part 2 of the LME Rulebook, of the importance of having in place appropriate and adequate systems and controls to detect, deter and deal with trading activity that is indicative of market abuse⁷. This section is intended to give guidance as to how the LME would assess the adequacy of a Member's systems and controls during a Member audit or investigation. Members should note disciplinary proceedings brought by the LME against Members for systems and controls failings, resulting in financial penalties for the Members concerned.
49. When undertaking an assessment into the adequacy of their systems and controls, the LME considers it prudent for Members to produce a market abuse risk assessment in order to assess the potential market abuse risks to which they are exposed. Failure to have produced a market abuse risk assessment may constitute evidence of poor systems and controls.
50. Members should also have regard to the following non-exhaustive list of factors when considering their compliance with their obligations pursuant to Regulation 12.6(b) of Part 2 of the LME Rulebook:
 - a. the extent to which the systems and controls (including but not limited to electronic surveillance system(s)) are appropriately calibrated considering and taking into account the nature, size and complexity of the business that a Member conducts on the LME market (whether such business is conducted by a Member, a Member's Clients, or the

⁷ For the avoidance of doubt, the obligations of a Member under Regulation 12.6(b) of Part 2 of the LME Rulebook apply not only to the obligation to have in place appropriate and adequate risk management systems in order to detect, deter and deal with trading activity that is indicative of market abuse, but also to the obligation to have in place appropriate and adequate risk management systems that enable a Member to comply with all of its obligations under the LME Rulebook.



underlying clients of a Member's Clients). Members who choose to offer Direct Electronic Access ("DEA") to their Clients are reminded that they retain responsibility for the trading of those Clients⁸. Such Members should consider putting in place policies and procedures that consider the suitability of DEA Clients in order to ensure that DEA Clients comply with the LME Rulebook at all times;

- b. the extent to which the Member has suitable arrangements to identify suspicious trading activity and undertakes appropriate action when such activity is identified (such as, but not limited to, investigating such activity in a timely manner);
- c. the extent to which the Member has control over its surveillance activity and has appropriate oversight of any outsourced arrangements;
- d. the frequency with which assessments are performed into the adequacy of a Member's risk management systems and controls;
- e. the records that are maintained with regard to surveillance arrangements. This would include, without limitation, records of how systems, such as surveillance systems, are calibrated, and how decisions are made as to calibration amendments, as well as e.g. records of risk assessments undertaken;
- f. the policies, procedures and processes that are in place to detect, deter and deal with potential instances of market abuse, including the frequency with which these policies, procedures and processes are reviewed and updated where necessary and how they are communicated to relevant staff;
- g. the extent to which staff are appropriately qualified to detect, deter and deal with potential instances of market abuse;
- h. the extent to which arrangements for staff involved in surveillance activities (e.g. responsibilities, reporting lines etc.) are appropriate and ensure freedom from conflicts of interest;
- i. the extent to which staff receive appropriate and regular training regarding, amongst other things, activity constituting market abuse, and an understanding of the obligations of a Member under the EU Market Abuse Regulation;
- j. the extent to which senior management have appropriate oversight of the surveillance function, including but not limited to, undertaking quality assurance checks of the work

⁸ Regulation 12.9, Part 3 of the LME Rulebook states that: "*LME Select Participants may offer order-routing facilities (also known as direct electronic access under MiFID II) to a Client, but in such cases the LME Select Participant retains responsibility for, and remains liable for, all trading activity conducted by such Client, including all orders submitted and trades executed using the order-routing facility.*"



performed by surveillance staff in relation to the detection of potential instances of market abuse, the availability of management information with regard to potential instances of market abuse, and documented escalation procedures; and

- k. the adequacy of pre-trade controls that are in place to assist in the prevention of disorderly trading on the LME.

ORDER STYLES

- 51. The principal order styles for Client orders are summarised below. These order styles do not represent all possible methods of order execution on the LME. Members and Clients should ensure that orders are communicated in meaningful terms that deliver the required execution in accordance with LME Rules.

Ring

- 52. Client orders are not traded in the Ring, so an order using the term “in/on the Ring or during the Ring/kerb” will be executed on the basis of the prices traded/quoted in the Ring or during the particular Ring or kerb session. If a Client requires their order to be “shown” or traded across the Ring then they should make this requirement known to their executor, who may or may not accept this as a term of the order. The equivalent Member-to-Member Agreed Trade for a Client order might not replicate its terms. As the Client is not a party to any Cleared Contracts which arise from Agreed Trades made in the Ring, in specifying Ring/kerb, the Client is merely identifying a pricing mechanism. A Member which undertakes to match a price traded in the Ring/kerb is not necessarily undertaking that it will trade during that Ring/kerb, only that it may do so. However, a Client may place an order with the specific request that the Member concludes an Agreed Trade in the Ring, replicating its order. In such circumstance, the Category 1 Member can only trade this order by open outcry in the Ring.
- 53. If a Client trades at the prevailing market quote proffered in the Ring/kerb, their executor is not necessarily obliged to effect an Agreed Trade in the Ring at the same price. This can lead to situations where the Client has traded at the prevailing market quote, without that same price trading in open outcry across the Ring. However, if the instructions from the Client are to achieve a specific price i.e. close of Ring 2, then this is the price that should be given, if that specific order is accepted.
- 54. The timings for the acceptance of orders from a Client to a Member which are executed “on the close” of the relevant Ring/Kerb should be agreed between the two parties. The timings may be dependent on the nature of the order (for example large in size orders may have different timings from smaller orders). However, the instructions should be clearly understood so there is no doubt how and when the order may be executed by the Member. If an ‘*on the close*’ order is not placed in sufficient time before the close of the relevant Ring/Kerb, the Member may reserve the right to decline acceptance of any such order.

Market



55. In normal circumstances a market order is one executed on a timely basis at the prevailing market price. As mentioned above, at certain times of the business day, trading is taking place simultaneously in the Ring or kerb, on LMEselect, and in the inter-office market. Traditionally, when open outcry trading is in session, the market tends to be led by activity within the Ring/kerb. At other times, the market is split between inter-office trading and trading on LMEselect. During LMEselect trading periods, firm prices are available on LMEselect and the LMEselect page on information vendors' systems. Members should ensure they consider their best execution obligations as defined by prevailing regulations when executing an "at market" order on behalf of a Client.

Best

56. "At best" orders may be executed on any of the Ring, inter-office market and on LMEselect. Inter-office trades rely upon the Members' skill in determining the level of the market at any particular time. Best orders received during Ring/kerb times may not result in the Client receiving the "best" price achieved during the session if the price improves after the Member has filled the Client order. At any given time, the best price on LMEselect will be displayed on the system and by the market data vendors. Clients should be aware that depending on market conditions, the best price may move during the period from when the order was placed and when it was executed. Members should ensure they consider their best execution obligations as defined by prevailing regulations when executing an at best order on behalf of a Client.

Close

57. Most orders placed "on the close", or "market on close" ("MOC") are for either the close of the second Ring (i.e. the Official Price) or the final kerb (i.e. the Closing Price). Both of these prices are published. Closing prices for other sessions are harder to determine, although the LME does publish the Unofficial Closing Prices which are established at the close of the third Ring. In all circumstances, Clients and Members need to agree the style of execution i.e. bid/offer, mean or traded price. Members may not always be able to guarantee execution (price or volume) due to prevailing market conditions.

Open

58. Clients placing orders to trade on the opening of a market session must provide clear instructions to the Member which indicate how this order should be activated i.e. basis the opening bid/offer or basis the first trade in the session. Clients will also need to inform their executor of their requirements if the executor is unable to fill the order basis the opening price in its entirety, due to market constraints such as insufficient liquidity. Clients may place orders with Members for LMEselect that can be placed into the system for activation when the market opens.

Resting Orders

59. When placing resting orders such as "good 'til cancelled" ("GTC", or any derivations thereof) or stop loss orders, Clients should ensure that they are in agreement with their executor's definition of the trigger point of the order. Usually, this is interpreted as being the point when the order



price is seen to be trading in the market, but it is possible to request the order be activated when the order level is either bid or offered as appropriate, via the prevailing market quote.

60. It is possible for a Client not to receive a fill on a resting order despite the order price trading in the market. This could be due to a number of circumstances such as order priority etc. Whatever the reason, the executor should be able to provide the Client with a full explanation of why it was unable to fill the order.
61. Clients should be aware that resting orders might be activated during periods of illiquidity in the market. As previously mentioned, this could result in the trade not being filled, or for “stop” orders, a worse fill than anticipated (known as “slippage”). Clients should ensure the executor is fully aware of their requirements regarding the execution of an order, and adheres to any limitations, especially if the Client is not in contact with the market / Member when the trigger point is reached.

LMEselect

62. It is possible for Clients to route orders to LMEselect, or to ask Members to place resting orders in LMEselect, on their behalf. LMEselect has multiple available order types and validity conditions, including but not limited to: GTC (for Cash and 3 month prompt dates only), “Good for day”, “Iceberg”⁹, “Scaling”¹⁰ and “Fill or Kill” orders¹¹. Further information on available order types, their characteristics and any restrictions on their use, is set out in the LMEselect User Guide, the current version of which is available on the LME website. Members are encouraged to read the LMEselect User Guide carefully to ensure compliance with any restrictions¹².

SEGREGATION & PORTABILITY

Segregation

63. When registering Agreed Trades in the Matching System, a Clearing Member must specify to which account at the Clearing House the resulting Cleared Contracts should be allocated. Where

⁹ Iceberg orders allow a trader to place an order without disclosing the full order quantity to the market. The trader specifies the open quantity amount seen by the market and the subsequent open order amounts at the time of the order placement. Any subsequent amendments to open quantity amount only take effect with the next order quantity to be placed; the current open quantity seen by the market does not change.

¹⁰ A scaling order allows the user to automatically place repeat orders for an outright valid prompt date with a scaled order price. i.e. scaled down buying or scaled up selling; although the user is not forced to change the order price and therefore can enter repeat order at the same price level. This function will place an order with the same quantity and prompt date with an adjusted order price if desired, once the previous order has traded in the LMEselect system.

¹¹ A Fill and Kill Order is entered at a specific price with the intention to execute immediately and therefore fill all or part of, the order and immediately cancel any unfulfilled balance.

¹² By way of example, whilst it is technologically possible for Members to submit discretionary orders in relation to LME Contracts, use of this order type (whether submitted via the LMEselect trading GUI, for example, or via any third party software application that utilises native LMEselect functionality for the discretionary order type) was prohibited by LME Notice 20/283. Similarly, Notice 20/283 also prohibits the use of native iceberg functionality in relation to Cash-Settled Futures Contracts.



any Cleared Contract is to be allocated to a client account (because the trade has been executed for a Client) the registration must align the Contract to a specific omnibus (which may be net or gross for Direct Clients or net for Indirect Clients) or individually segregated account at LME Clear. Members are required to offer Clients a choice of accounts. The distinguishing factor between the two is: either (i) an omnibus account which has assets and positions allocated to it for multiple Clients, or multiple Clients with Indirect Clients; or (ii) an individually segregated account which has assets and positions allocated to it for a single Client, or a single Client with Indirect Client/s. Clearing Members, Clients and Indirect Clients wishing to know more about segregation options may review LME Clear's EMIR Article 39(7) disclosure on the LME Clear website.

Portability

64. Where LME Clear has declared an Event of Default in relation to a Clearing Member and a Client wishes to transfer its positions from an account maintained with the defaulting Clearing Member to another Clearing Member, it must notify¹³ LME Clear in accordance with the procedures set out by LME Clear from time to time. LME Clear will effect the transfer of positions and, where possible, assets subject to and in accordance with the LME Clear Rules¹⁴. Where the Client fails to submit its request in accordance with the LME Clear procedures or porting is not possible in accordance with the LME Clear Rules, the positions in the relevant account may be closed out by LME Clear and assets in the account used to offset any losses in the account. Members, Clients and Indirect Clients wishing to know more about default porting may review LME Clear's Article 39(7) disclosure on the LME Clear website.

¹³ It is not possible to accept such notifications from Indirect Clients, and the request must always be made by the Client.

¹⁴ The LME Rules contain provisions to ensure that, where any Cleared Contract is ported in accordance with LME Clear Rules, the back-to-back Client Contracts shall also port.