

# Crossing Guidance (draft)



# 1 Legal Disclaimer

The purpose of this document is to provide an indicative draft of the Crossing Guidance. It should be read in conjunction with the Consultation Notice 25/083 (the “**Consultation**”) and the proposed amendments to the LME Rulebook. This document forms part of the set of supporting documentation provided to assist the market in assessing the full impact of the potential introduction of the Crossing Rule.

For the avoidance of doubt, there should be no assumption that there will be future consultations on revisions to the Crossing Guidance if the LME were to decide to implement the Crossing Rule following the Consultation. Nothing in this document should be taken as indicating such future intention or commitment on the part of LME.

# 2 Summary

This document is intended to provide technical guidance to Members on the crossing rule requirements in accordance with LME Regulation 2.4A (The Crossing Rule) of Part 3 of the LME Rulebook. This document provides details of the methods by which orders resulting from permitted Pre-Trade Communications may be entered on LMEselect, including Member and Client orders. These rules are applicable to any Agreed Trade executed on LMEselect. For the avoidance of doubt, crossing can be utilised to execute Agreed Trades both below and above the Minimum Volume Threshold (“MVT”) where applicable.

# 3 Crossing Methods

Where a Member has engaged in Pre-Trade Communications in compliance with Regulation 2.2A, the Member can utilise the Crossing Rule in order to execute on LMEselect. There are two methods available, described below.

## 3.1 LMEselect Cross (manual cross)

Where two participants engage in Pre-Trade Communications, and as a result intend to enter orders on LMEselect, the client order, or order of the participant that initiated the Pre-Trade Communications, must be submitted to LMEselect first, without delay. Following a minimum period of 5 seconds, the opposite side may be entered.

This process is referred to as the LMEselect Cross.

Below we set four illustrative trading scenarios explaining the LMEselect Cross: a Member to Member trade, a Client to Member trade, a Client to Member trade where the Client utilises Direct Electronic Access (“DEA”) and a Client to Client trade.

Members are reminded that in any of these scenarios orders may interact with resting or incoming orders to the market. For the avoidance of doubt, orders will be matched on a price/time-priority basis in line with any order entered to the matching engine, as defined by the Exchange.

Members should ensure that the client account code and any other required fields are correctly populated on the client side of the cross to ensure these trades can be identified as cross trades.

### 3.1.1 Member to Member

Where two Members engage in Pre-Trade Communications, and as a result enter orders on LMEselect, the order of the Member that initiated the Pre-Trade Communications must be submitted to LMEselect first, without



delay. Following a minimum period of 5 seconds, the opposite side may be entered by the non-initiating Member.

### **3.1.2 Member to Client**

Where a Member and a Client have engaged in Pre-Trade Communications, and as a result the Member enters orders on LMEselect, the Client order must be submitted to LMEselect first, without delay. The Member order may only be submitted after minimum period of 5 seconds.

### **3.1.3 Member to Client (Client utilises DEA to LMEselect)**

Where a Member and a Client have engaged in Pre-Trade Communications, and as a result enter orders on LMEselect, the Client order must be entered first (on a DEA basis), without delay. The Member order may only be submitted after a minimum period of 5 seconds.

### **3.1.4 Client to Client**

Where two Clients have engaged in Pre-Trade Communications, the order of the party that initiated the Pre-Trade Communications must be submitted to LMEselect first, without delay. The non-initiating Client order may only be submitted after a minimum period of 5 seconds.

Members are expected to adhere with this guidance, which should be read in conjunction with the Matching Rules and any other applicable guidance or any relevant LME Notices.

## **3.2 LMEselect Crossing Order Type**

Where two participants engage in Pre-Trade Communications, and as a result intend to enter orders on LMEselect, the resulting orders may be entered using the LMEselect Crossing Order Type.

The LMEselect Crossing Order Type must be submitted without delay. Upon entry, an RFC (Request For Cross) notification is sent to the market, followed by a 5 second interval before the LMEselect Crossing Order Type logic is processed.

Where the LMEselect Crossing Order Type is used, the Member entering the order should identify which is the Client or initiating side.

The illustrative scenario below explains the LMEselect Crossing Order Type logic in a scenario where a Member is trading with a Client. This logic is also applicable where the Crossing Order Type is used in the case of a Member crossing two clients.

### **3.2.1 LMEselect Crossing Order Type logic**

Where a Member has engaged in Pre-Trade Communications with a Client in order to cross, the Member may use the LMEselect Crossing Order Type, and if so must indicate the Client side of the order and may use the Guarantee Flag. The Guarantee Flag ensures that Client will at least get a fill at the cross price, and can get an improvement from liquidity on LMEselect.

The LMEselect Crossing Order Type will generate an RFC notification to the market which shows the volume of the order, but not the price.

#### **1. *Where the Guarantee Flag is used:***

After a period of 5 seconds, the crossing order logic will process based on the activity in the orderbook at that time, resulting in one of the below scenarios:



- If the market moves in favour of the Client<sup>1</sup>, the Client will automatically receive a partial/full price improvement with the Member executing against any residual. Any remaining unexecuted volume (on the Member side) from the LMEselect Crossing Order Type will be cancelled.
- If there are no better bids/offers in the relevant book, the cross is completed, the Member and Client will execute against each other's orders at the cross price.
- If there are orders at the same price level as the cross, the Member and Client will execute against each other's orders at the cross price.
- If the market moves against the Client<sup>2</sup>, the Member and Client will execute against each other's orders at the cross price.

## 2. *Where the Guarantee Flag is not used:*

After a period of 5 seconds, the crossing order logic will process basis the activity in the orderbook at that time, resulting in one of the below scenarios:

- If the market moves in favour of the Client, the Client will automatically receive a partial/full improvement with any residual executing with existing orders in the book at the cross price ahead of the member executing against the client at the cross price. Any residual unexecuted volume from the Member from the LMEselect Crossing Order will be cancelled.
- If there are no better bids/offers in the relevant book, the cross is completed with the Member and Client will execute against each other's orders at the cross price.
- If there are existing orders in the book at the same price level as the cross that the client order can execute against, the order will be filled against those existing orders first with the Member executing against any residual at the cross price. Any residual unexecuted volume from the Member from the LMEselect Crossing Order will be cancelled.
- If the market moves against the Client<sup>2</sup>, the order will be rejected, and the cross will not be completed; the Member can either re-enter the cross at a new price level or work the order in the market.
- If there are existing orders in the book at the same price level in the same direction as the client order, then the order will be rejected, and the cross will not be completed; the Member can either re-enter the cross at a new price level or work the order in the market.

For the avoidance of doubt, these scenarios are also applicable where the Crossing Order Type is used when a Member crosses two Clients, and the initiating side of the order is identified.

## 4 Further Information

For further information on the functionality, or any question arising from the document, please reach out to [tradingoperations@lme.com](mailto:tradingoperations@lme.com)

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<sup>1</sup> For the avoidance of doubt, where the client is the buyer and best offer in book is lower than client bid. Where the client is the seller and the best bid in the book is higher than the client offer.

<sup>2</sup> For the avoidance of doubt, where the client is the buyer and best bid in book is higher than client bid. Where the client is the seller and the best offer in the orderbook is lower than the client offer.