LME DEA Access Overview

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1   Introduction

This document provides an overview of the key elements of the operation of LMEselect that apply to business submitted by DEA participants. It is to be read in conjunction with Part 3 (Trading Regulations) of the LME Rulebook, and with the supporting documents listed in this text.

1.1   Intended Audience

This document is intended for new and existing Members, Clients, ISVs and stakeholders with an interest in DEA access.

1.2   DEA On-boarding and Conformance Testing

For any queries relating to DEA access, please contact Trading Operations on +44 (0) 207 113 8200, or tradingoperations@lme.com

For information on conformance testing for DEA participants, please see the LMEselect and LMEsmart Testing Services document.

1.3   Supporting Documents

This document is to be read in conjunction with the following documents:

- LME Pre-Trade Risk Management User Guide
- Error Trades and Erroneous Order Submissions Policy
- Policy on Order Cancellation and Controls
- LMEselect Unexecuted Order to Transaction Ratio Policy
- LMEselect and LMEsmart Testing Services
- Price Bands and Other Volatility Control Mechanisms
- Algorithmic Trading and Order Routing Services Policy

2   Pre/Post-Trade Checks & Controls

2.1   Pre-Trade

This section is to be read in conjunction with the LME Pre-Trade Risk Management User Guide document.

The LME's Pre-Trade Risk Management (PTRM) system allows Members the opportunity to manage their risk by using intelligent limits that reflect their risk profile and business model. The 'PTRM Manager' user type has the ability to enable and disable accounts, assign users and Tag58 values to accounts, and manage credit limits.

Limits can be set per product, per contract type (e.g. Carry, Option, Outright etc.), and per specific limit (e.g. notional value, per order quantity etc.).

The LME's Dynamic Price Bands use price collars to automatically block orders that do not meet set parameters. For more information please see section 3: Dynamic Price Bands.

2.2   Post-Trade

At Member-level, the 'Drop Copy' account provides the ability to monitor orders on an almost real-time basis without increasing latency to the order flow. A Drop Copy account subscribes to a data feed from the LMEselect system which contains all orders and trades associated with the individual Member and its users. This account type receives all order flow and can request trade history reports, making it ideal for reconciliation purposes.

3   Price and Volatility Controls

All LMEselect business (including that submitted by DEA participants) is subject to price and volatility controls: Dynamic Price Bands, as well as Static Price Bands or Daily Price Limits which are applied on a contract by contract basis. All DEA participants must familiarise themselves with the document Price Bands and Other Volatility Control Mechanisms to ensure they are aware of the operation of these mechanisms within LMEselect.

4   Error Trades & Erroneous Order Submissions

This section is to be read in conjunction with the Error Trades and Erroneous Order Submissions Policy. All DEA participants are subject to the Error Trade and Erroneous Order Submissions Policy. That Policy outlines the circumstances relating to error trades and the submission of erroneous orders on LMEselect.

The LME will publish no-cancellation ranges (NCRs) for all products on the LME website, which may be amended from time to time. The LME will, at all times, calculate an anchor price for all contracts and the NCRs will be based upon this anchor price. Requests to cancel trades will not be accepted if that trade falls within the relevant NCR, and the LME has full discretion whether or not to permit the cancellation of LMEselect trades.

Where a transaction is executed at a price that falls outside of the relevant NCR, the LME may invalidate the trade and instruct that a new trade with the price of the transaction is adjusted such that it falls inside the relevant NCR to be entered into the LME's matching system. The LME reserves the right, in addition, to invalidate transactions that it considers in its absolute discretion to have been at prices that are not representative of fair market value, even if they fall within the prevailing NCR.

The LME, acting on its own initiative, reserves the right to remove any order in LMEselect if it deems it to be in the best interests of the market.

The LME may be required to cancel orders in order to prevent disorderly trading conditions and breaches of capacity limits. The LME may also cancel or revoke transactions in case of malfunction of the LME's mechanisms to manage volatility or of the operational functions of LMEselect.

5   Unexecuted Order to Transaction Ratio Policy

This section is to be read in conjunction with the Unexecuted Order to Transaction Ratio Policy. All DEA participants are subject to that Policy.

The Unexecuted Order to Transaction Ratio Policy gives the following definitions:

'Order' means all input messages, including messages on submission, modification and cancellation relating to an order, but excluding cancellation messages sent subsequent to:

(i)   uncrossing in an auction;

(ii)   a loss of venue connectivity; and

(iii)   the use of a kill functionality.

'Transaction' means a totally or partially executed Order.

'Volume' means the quantity of instruments traded, expressed in size as the number of Lots.

The LME calculates the ratio of unexecuted orders to transactions in the following two ways:

(a)   **The "Number" Calculation**: (total number of Orders / number of transactions) -1; and

(b)   **The "Volume" Calculation**: (total Volume of Orders / total Volume of Transactions) -1

For a Member to be in breach of the Policy during a trading day, the ratio will have to be exceeded on either or both calculation, on a specific financial instrument. The thresholds, per financial instrument, are published on the LME website.

6   Order Cancellation and Controls Policy

This section is to be read in conjunction with the Order Cancellation and Controls Policy. All DEA participants are subject to that Policy.

The LME implements a throttling limit which limits the maximum number of order entry/updates that can take place to 40 per second for each FIX key or 10 per second for each GUI user. Order entry/updates in excess of the throttling limit in any given second would result in those orders being rejected by the system.

For example, a burst of 80 order entry/update instructions in one second via a FIX key would result in acceptance of the first 40 instructions during one second with the remaining instructions being cancelled.

The LME operates mechanisms to halt or constrain order entry/updates and trading at all times during trading hours, and the LME ensures that Members are treated equally in the application of the throttling policy contained in the Order Cancellation and Controls Policy.