



POLICY ON ORDER CANCELLATION AND CONTROLS

Please respond to:
Trading Operations

1 Introduction

This document sets out the London Metal Exchange's (the "LME's") policy on order cancellation and other controls that assist it in maintaining an orderly market. This policy addresses the obligations imposed on trading venues derived from MiFID II (as onshored into UK law and regulation), with particular reference to Regulatory Technical Standard (RTS) 7, Articles 18, 19, and 20.

2 Defined Terms

Capitalised terms not otherwise defined herein shall have the meaning ascribed to them in the Rules and Regulations of the LME (the "LME Rulebook").

3 Power to Request Information

The LME Rulebook at Part 2 sets out the powers of the LME to request information from Members. For the avoidance of doubt, this shall include the power to request information from Members regarding their organisational requirements and trading controls, or about the organisational requirements and trading controls of any Client of a Member. The Member shall comply with any request of the LME, or shall procure that its Client complies with any request of the LME.

4 Cancellation of Orders by the LME

The LME may be required to cancel orders in order to prevent disorderly trading conditions and breaches of capacity limits.

The LME may operate a kill functionality to cancel unexecuted orders submitted by a Member, or by an order-routing Client, under the following circumstances:

- a) Upon the request of the Member, or the order-routing Client, where the Member (or Client if relevant) is unable to delete its own orders;
- b) where the order book contains erroneous duplicated orders; or



- c) following a suspension initiated either by the LME or by the FCA or any other relevant regulatory authority.

The LME may cancel or revoke transactions in case of malfunction of the LME's mechanisms to manage volatility or of the operational functions of LME Select, for example loss of connectivity, market data feed issues or other technical issues which impact reference prices and order book management.

The LME may also cancel or revoke orders and trades/transactions in accordance with the LME's Error Trades and Erroneous Order Submissions Policy.

5 LME Controls

The LME takes steps to ensure that a fair and orderly market is maintained with regard to the submission of orders, and to protect both the LME and Members' own systems and infrastructure from inappropriate activity.

The LME has the following arrangements which assist in preventing disorderly trading and breaches of capacity limits:

- a) throttle limit, which limits the maximum number of order entries/updates sent per Member per second;
- b) mechanisms to manage volatility; and
- c) pre-trade controls.

5.1 Throttle Limit

The LME implements a throttle limit which limits the maximum number of order entry/updates that can take place to 40 per second for each LME Select FIX key or 10 per second for each GUI user.

Order entry/updates submitted in excess of the throttle limit in any given second will result in those orders/updates being rejected by the system. The LME is not responsible for missed trading opportunities resulting from the application of the throttle limit.

The LME will ensure that Members are treated equally in the application of its order throttling policy.



5.2 Mechanisms to Manage Volatility

The LME operates mechanisms to halt or constrain order entry/updates and trading at all times during trading hours.

The LME will ensure that:

- a) mechanisms to halt or constrain order entry/updates and trading are tested before implementation and periodically thereafter when the capacity and performance of trading systems is reviewed;
- b) IT and human resources are allocated to deal with the design, maintenance and monitoring of the mechanisms implemented to halt or constrain trading; and
- c) mechanisms to manage market volatility are continuously monitored.

The LME maintains records of the rules and parameters of the mechanisms to manage volatility and any changes thereof, as well as records of the operation, management and upgrading of those mechanisms.

The LME operates volatility management mechanisms which include: dynamic price bands, static price bands and daily price limits for both order submission to LMEselect, and trade entry to LMEsmart. The operation of these mechanisms and their application to specific contracts is described in detail in the Price Bands and Other Volatility Control Mechanisms document.

The LME's dynamic price band functionality can be manually adjusted on contract and prompt levels in line with market conditions to determine market levels, to manage situations where the parameters have to be manually overridden to ensure orderly trading.

The dynamic price band functionality assists the LME in managing volatility. The management of volatility may also include, where appropriate, the temporary suspension of the matching of orders in LMEselect.

The temporary suspension of orders would be implemented as follows:

The LME may, at its absolute discretion, acting reasonably, suspend trading on LMEselect for such periods it considers necessary in the interests of maintain a fair and orderly market. The LME will keep such suspension under constant review, and trading will be resumed as soon as reasonably practicable following any such suspension of LMEselect.



5.3 Pre-trade and post-trade controls

The LME has the following pre-trade controls:

- a) The Pre-Trade Risk Management (PTRM) application on LMEselect allows the LME and Members to set pre-defined limits on order submission. These limits include the ability to set a maximum value, both in lots and notional value per order. Orders submitted in excess of these limits are rejected, although the Member has the ability to override those limits that it has set itself in accordance with their own internal procedures, where appropriate; and
- b) The LME's dynamic price bands use price collars to automatically reject orders that do not meet set price parameters.

The LME's PTRM and dynamic price bands are designed to readjust limits during the trading session and in all its phases. Any order that breaches a limit will be rejected once that limit is breached.

The LME has the following post-trade controls:

- a) Post-trade controls include a continuous assessment and monitoring of market and credit risk of the Member and controls regarding the maximum long and short and overall strategy positions;
- b) Members must reconcile their own trading logs with the data provided by the LME, by their Clearing Members; the Clearing House; order routing providers; third party data vendors and/or other relevant business partners. Members are able to calculate outstanding exposure and monitor real time positions of its traders and clients in LMEmercury; and
- c) For Members operating an algorithmic trading system, post-trade monitoring must be undertaken by the traders responsible for the algorithm and the risk control functions within the firm.

6 Monitoring

The LME will perform ongoing monitoring of LMEselect including, without limitation, performance and capacity, orders sent by Members on an individual and aggregated basis, message flow, and the concentration flow of orders, to detect potential threats to the orderly functioning of the market.



7 Suspension of Access

The LME may suspend access to LMEselect or any of its systems, either at the individual Member or dealer level or for the whole market, at the initiative of the LME or at the request of the relevant Member or the Clearing House, or where required by the rules of the Clearing House, or by the FCA or any other relevant regulatory authority.

8 Members' Controls

Members shall be required to comply with all relevant regulatory requirements including, but not limited to those derived from MiFID II. In particular Members must have policies in place for the following:

- a) Pre-trade controls on price, volume, value and usage of LME Select, and post-trade controls on the Member's trading activities across both LMEselect and the Matching System;
- b) these policies should set out the process by which the configuration for each control is determined; the process for revising such configuration, and any over-ride or emergency process;
- c) the technical and functional conformance testing that must be undertaken prior to deployment of all third-party systems and/or applications that interface with LMEselect and/or the Matching System. For the avoidance of doubt, the reference to third-party systems/applications shall include those developed in-house by the Member themselves as well as those provided by vendors; and
- d) in addition to any over-ride or emergency policy referred to in b) above, Members must have a policy relating to the use of kill functionality with regard to business executed on LMEselect.

Members must ensure that all of the policies referred to in this section 8 are also reflected in relevant "Business Continuity/Disaster Recovery Plans" (BCP/DR) maintained and followed by Members, such that the invocation of either does not result in any reduction in the level of control exercised over the business conducted through the LME's systems.

Members must ensure that all staff in key positions at Members are suitably qualified.

