

Redline of amendments to the LME Rulebook



PART 1: DEFINITIONS AND GENERAL RULES

All definitions below are new and underlined.

<u>“Crossing Rule”</u>	<u>has the meaning set out in Regulation 2.4A of Part 3 of these Rules;</u>
<u>“Fair Market Value”</u>	<u>in respect of an Agreed Trade, a price which is fair and reasonable for a trade of that kind and size at the relevant time in view of, but without limitation:</u> <u>(a) the size of the trade;</u> <u>(b) the circumstances of the market for the Contract or of the parties to the trade; and</u> <u>(c) the prices and sizes of other transactions in the same Contract Executed on one or more of the Execution Venues operated by the Exchange;</u>
<u>“Equivalent Trade”</u>	<u>for the purpose of Regulation 2.5A.3 only, a single trade in the exact same instrument(s) or multiple trades in a combination of instruments with the same risk profile as the corresponding Agreed Trade to be executed in the inter-office market between a Member and a Client. An Equivalent Trade may have a different price to the Agreed Trade in the inter-office market which may include any commissions, charges or fees provided that these have been previously agreed with the Client;</u>
<u>“LME Liquid Instrument”</u>	<u>the Contract and Prompt Date subject to a Minimum Volume Threshold as determined by the Exchange from time to time;</u>
<u>“Minimum Volume Threshold”, “MVT” or “Threshold”</u>	<u>the minimum number of lots in respect of a Contract that can be submitted as an Agreed Trade for Execution in the inter-office market, as determined by the Exchange and published by Notice or otherwise from time to time;</u>
<u>“Pre- Trade Communications”</u>	<u>any negotiation or discussion on the direction, size or price of a potential or future Agreed Trade prior to submission to an Execution Venue operated by the Exchange;</u>

Existing definitions below are amended. New text is underlined, deleted text is showed as strikethrough.

<u>“Customer”</u>	<u>a person that initiates pPre-tTrade <u>Execution</u> eCommunications with a Member, and/or requests a quote from a Member, or a person in respect of which a Member</u>
-------------------	---



initiates ~~p~~Pre-Trade Execution ~~e~~Communications, and including:

another Member; or

a Client;

"Pre- Trade Execution Communication"

has the meaning set out in Regulation 2.15.6 of the Trading Regulations;



PART 2 – MEMBERSHIP, ENFORCEMENT AND DISCIPLINE

New text is underlined, deleted text is shown as strikethrough.

12. PROVISION OF INFORMATION AND OBLIGATIONS OF MEMBERS

[...]

12.7 No Member shall:

- (a) manipulate or attempt to manipulate the market or any prices, indices or benchmarks set or otherwise published by the Exchange;
- (b) engage in or attempt to engage in insider dealing;
- (c) create or attempt to create a disorderly market; or
- (d) enter an order in LME Select where the Member has beforehand engaged in Pre-Trade Communications except as permitted in Regulation 2.2A of Part 3 of these Rules; or
- ~~(d)~~(e) knowingly facilitate, fail to take reasonable steps to prevent or assist its Clients, or any other person, to do any of (a), (b), ~~or (c)~~ or (d) above.

[...]

13. INVESTIGATIONS INTO SUSPECTED ACTS OF MISCONDUCT

[...]

13.2 An Act of Misconduct is:

- (a) any violation or attempted violation of the Rules or participation in conduct by a third party which would be a violation or attempted violation of the Rules if that third party were subject to the Rules;

[...]

- (i) a failure to comply with a direction of the Exchange as to the apportionment of liability for the registration fee pursuant to the LME's complaints procedure; ~~and~~
- (j) entering an order in LME Select where the parties have beforehand engaged in Pre-Trade Communications except as permitted in Regulation 2.2A of Part 3 of these Rules; and

any other matter of which the Exchange may, from time to time, publish by way of Notice.

[...]



PART 3 – TRADING REGULATIONS

New text is underlined, deleted text is shown as strikethrough.

[...]

2.2 Contract Formation

[...]

2.2.3 An Agreed Trade shall constitute:

- (a) [...]
- (b) in the case only of a PTT Order, the agreement of the parties to Pre- Trade Execution Communications to initiate a Fixed Price Auction in respect of terms of a transaction that, were it to be matched pursuant to such Fixed Price Auction, would constitute an agreement within (a) above.

[...]

For the avoidance of doubt, the purpose of any reference in these Rules to an Agreed Trade falling within (b) above shall be to give rise to:

- (i) [...]; or
- (ii) where the Pre- Trade Execution Communications are made between a Registered Intermediary Broker and its Clients, an obligation on the RIB to (subject to the agreement of its Clients), submit the particulars of the IOM PTT Initiating Pair to the Matching System, for the purpose of obtaining the confirmation by the nominated Clearing Member(s) to the proposed Agreed Trade, and the consequent initiation of a Fixed Price Auction pursuant to which any PTT Orders may be made pre-trade transparent.

[...]

2.2A Pre-Trade Communications

2.2A.1 Pre-Trade Communications:

- (a) shall be permitted in relation to Agreed Trades made in the inter-office market; and
- (b) shall not be permitted in relation to Agreed Trades made in LME Select except:
 - (i) for legitimate and lawful business communications between a Member and a Client on the parameters of an order which will be entered by the Member on the Client's behalf; and/or
 - (ii) where Members enter an order resulting from such communications in LME Select in accordance with one of the methods of crossing specified by the Exchange in Regulation 2.4A.

2.2A.2 Where Members engage in permitted Pre-Trade Communications, Members shall:



- (a) ensure that the price quoted for the potential or future Agreed Trade is at Fair Market Value; and
- (b) in the case of Regulation 2.2A.1 (b) (ii), have first obtained the Client's consent before engaging in Pre-Trade Communications.

2.2A.3 Where Pre-Trade Communications are permitted, a Member shall not:

- (a) engage in Pre-Trade Communications where to do so would breach market abuse legislation or any other applicable law or regulations;
- (b) disclose any information obtained in Pre-Trade Communications (or otherwise) or make any other use of such information or engage or attempt to engage in any other behaviour in breach of the Rules.

Breaches of relevant market abuse legislation or any other applicable laws or regulations shall constitute a breach of these Rules including as set out in Regulation 14.9.

2.2A.4 Regulation 2.2A shall not apply to:

- (a) communications between a Member and the Exchange; or
- (b) communications within a Member, provided that such communications comply with relevant market abuse legislation and any other applicable laws or regulations and the Rules.

[...]

2.4 Execution of trades in LME Select

[...]

2.4A The Crossing Rule in LME Select

2.4A.1 Members who have engaged in Pre-Trade Communications in compliance with Regulation 2.2A.1(b) shall enter the orders resulting from those communications into LME Select in accordance with the methods of crossing as specified by the Exchange from time to time. For the purposes of complying with applicable pre-execution (price validation) checks, all orders entered in LME Select shall be entered at the clean price (that is net of commissions, credit charges and or fees). Only Members may use the Crossing Rule.

2.4A.2 Members, who have first executed an Equivalent Trade on LME Select in accordance with the methods of crossing specified by the Exchange, may subsequently submit the corresponding Agreed Trade for Execution in the inter-office market in compliance with Regulation 2.5A.3 (b). Members may use the Crossing Rule irrespective of the size of the Agreed Trade.

Regulation 2.4A shall be known as the 'Crossing Rule'.

2.5. Execution of trades in the inter-office market

2.5.1 Where an Agreed Trade is made in the inter-office market, otherwise than when it is made by a Registered Intermediating Broker, the following process shall apply.

- (a) Upon the agreement of an Agreed Trade in the inter-office market, the parties to the Agreed Trade shall become bound to a Contingent Agreement to Trade.



(b) The Contingent Agreement to Trade shall comply with Regulation 2.5A.

~~(b)(c)~~ The obligations of the parties to the Contingent Agreement to Trade shall be as

specified in Trading Regulation 2.10 below.

[...]

2.5.2 Where an Agreed Trade is arranged in the inter-office market by a Registered Intermediating Broker, the following process shall apply:

(a) The Registered Intermediating Broker shall act as agent for each of its Clients, for the purposes of agreeing the Agreed Trade between such Clients.

(b) A Contingent Agreement to Trade shall comply with Regulation 2.5A.

~~(b)(c)~~ Upon agreement of the particulars of the Agreed Trade by each Client, the Registered Intermediating Broker shall, using the Matching System RIB Screen, submit such particulars to the Clearing Member nominated by each Client as being responsible for the clearing of the Contracts that will arise upon Execution of the Agreed Trade.

[...]

2.5A Minimum Volume Threshold (Execution of trades in the inter-office market)

2.5A.1 An Agreed Trade subject to a Minimum Volume Threshold shall not be Executed in the inter-office market where it is below that Threshold. For the avoidance of doubt, an Agreed Trade may be executed in the inter-office market where it is subject to a Minimum Volume Threshold and it is equal to or above that Threshold.

2.5A.2 Members and Registered Intermediating Brokers cannot aggregate or disaggregate Agreed Trades to circumvent the prohibition in Regulation 2.5A.1, including without limitation:

(a) individual Agreed Trades from the same Client which have been aggregated where any such trade is below the Minimum Volume Threshold; or

(b) individual Agreed Trades from separate Clients which have been aggregated where any such trade is below the Minimum Volume Threshold; or

(c) an order from the same Client at or above the Minimum Volume Threshold which has been split into several orders where any of the resulting Agreed Trades are individually below the Minimum Volume Threshold;

For the avoidance of doubt, individual Agreed Trades may be aggregated pursuant to one of the exceptions set out in Regulation 3.12 and executed in the inter-office market only where each component order of the Agreed Trade (including any adjustment of the Prompt Date under Regulation 3.12(b)) either (i) is equal to or above the Minimum Volume Threshold or (ii) has been executed in compliance with Regulation 2.5A.3.

2.5A.3 By way of exception, Regulation 2.5A.1 shall not apply to an Agreed Trade in an LME Liquid Instrument where that Agreed Trade is below the Threshold and:

(a) where a Member wishes to trade with a Client, before submitting the Agreed Trade in the inter-office market, the Member shall have first executed an Equivalent Trade in LME Select;

or



- (b) where, for each Agreed Trade submitted for Execution in the inter-office market, the Member shall have first executed an Equivalent Trade in LME Select in compliance with a method of crossing specified by the Exchange in Regulation 2.4A;

provided that the Member has first obtained the consent of the Client to execute in either of the above ways.

2.5A.4 The Exchange may specify one or more exemptions to the application of Regulation 2.5A.1 which it shall publish from time to time.

2.5A.5 The Exchange may, in its sole discretion and in any circumstance, disapply Regulation 2.5A.1 on a temporary basis for any purpose, with immediate effect and at any point in time.

[...]

2.8 Pre-Execution Checks

2.8.1 The Exchange and/or the Clearing House will conduct the following checks prior to allowing an Agreed Trade made in LME Select or the inter-office market to be Executed:

- (a) the Agreed Trade is for a valid Contract, including having a valid Prompt Date (if applicable);

[...]

(f) in respect of an Agreed Trade made in the inter-office market, the Agreed Trade complies with Regulation 2.5A;

(f)(g) the transaction details identifying the correct position keeping account(s) at the Clearing House to which the resulting Cleared Contracts should be allocated have been entered into the Matching System;

[...]

2.10 Contingent Agreement to Trade

2.10.-1 A Contingent Agreement to Trade shall comply with Regulation 2.5A.

2.10.1 The terms of a Contingent Agreement to Trade shall be as set out below:

[...]

[...]

2.11 Give-Ups

2.11.1 In the event that a Member agrees an Agreed Trade that is to be the subject of a give-up, such Member must comply with such technical, procedural and timing requirements as may be specified in Administrative Procedures, including any requirements relating to: (i) the specification of the accounts at the Clearing House to which the Cleared Contract(s) resulting from the Execution of the Agreed Trade should be allocated; and (ii) any subsequent cancellation or reversal of such Cleared Contract(s) upon acceptance of the give-up by another Clearing Member. For the avoidance of doubt, any Agreed Trade that is to be subject of a give-up shall comply with Regulation 2.5A.

[...]

2.12 Requirements for Registered Intermediating Brokers



- 2.12.1 The following requirements apply to Registered Intermediating Brokers and Agreed Trades and Contracts arranged by Registered Intermediating Brokers.
- 2.12.2 Registered Intermediating Brokers shall be permitted to arrange Agreed Trades only in the inter-office market and if the Agreed Trades comply with Regulation 2.5A above. Registered Intermediating Brokers shall not be permitted to arrange Agreed Trades in the Ring, or through the facilities of LME Select.
- 2.12.3 Registered Intermediating Brokers may not arrange, or submit to the Matching System, any Agreed Trade the execution of which would result in such Registered Intermediating Broker becoming a counterparty to any resulting Contract (including as a Client of any other Member).

[...]

2.15 Pre-Trade Transparency for inter-office market trades: Fixed Price Auction

- 2.15.1 A Member must not make a PTT Order otherwise than pursuant to the initiation of a Fixed Price Auction, in accordance with the requirements of Regulation 2.15.8 below. For the avoidance of doubt, a PTT Order shall comply with Regulation 2.5A.
- 2.15.2 An Out of Scope Order or a PTT Exempt Order shall not be subject to the Pre-Trade Transparency Requirements and shall not be required to be made transparent pursuant to a Fixed Price Auction.

[...]

Pre-Trade Trade Execution Communications in relation to PTT Orders

- 2.15.6 In the event that a Member:
 - (a) enters into pre-execution communications with a Customer that is a Member, in relation to a trade for the Member's own account in the inter-office market; or
 - (b) enters into pre-execution communications with a Customer that is not a Member, or receives a request for a quote from such a Customer for a trade that is not an order that is received for execution in the Ring or on LME Select pursuant to an order-routing facility and governed by Trading Regulations 2.7 or 12.9 to 12.15; or
 - (c) is a Registered Intermediating Broker and receives a request for a quote from a Customer for a trade,

(such pre- trade execution communications or request for a quote, pursuant to (a) or (b) above, being a "**Pre- Trade Execution Communications**"), then such Member shall not, in the course of such Pre-Trade Execution Communications:

- (i) make a PTT Order; or
- (ii) in the case of a Registered Intermediary Broker, submit a PTT Order to the Matching System,

unless it first agrees to (or, in the case of a RIB, agrees with both of its Clients to) initiate a Fixed Price Auction, in accordance with the process set out in Regulation 2.15.8 below. For the purposes of this Rule 2.15, "**pre-execution communications**" shall mean communications for the purpose of discerning interest in the execution of a trade in a Contract in the inter-office market, prior to the agreement of an Agreed Trade.

- 2.15.7 [...]



2.15.8 The Fixed Price Auction

The following process must be applied where matching PTT Orders (an "IOM PTT Initiating Pair") are received by the Matching System pursuant to Regulation 2.15.7 above.

[...]

(c) [...]

(ii) In the case of:

- (1) an IOM PTT Initiating Pair resulting from Pre- Trade Execution Communications falling within Regulation 2.15.6(a) above either or both of the Members that submitted the IOM PTT Initiating Pair may remove their side of IOM PTT Initiating Pair from the Matching System; and
- (2) an IOM PTT Initiating Pair resulting from Pre-Trade Execution Communications within Regulation 2.15.7(b) above, the Member that input both sides of the IOM PTT Initiating Pair may withdraw such IOM PTT Initiating Pair from the Matching System by withdrawing both sides of the IOM PTT Initiating Pair,

[...]

3. THE MATCHING SYSTEM AND RECORDING OF TRADES

[..]

3.5 Deadlines

3.5.1 [...]

(c) where the Agreed Trade is made in the inter-office market and has been arranged by a Registered Intermediating Broker:

[...]

(iii) for the avoidance of doubt, where the Agreed Trade is comprised of PTT Orders, the time of "agreement" specified in (i) and (ii) above, shall be construed to mean the time that the Registered Intermediating Broker is in receipt of Pre- Trade Execution Communications that would, subject to the subsequent approval of the Clearing Member(s), constitute an IOM PTT Initiating Pair,

[...]

3.7 Maintenance of Records

3.7.1 Every Trading Member and Registered Intermediating Broker shall keep such records, with such content and in such form, as may be required to demonstrate compliance by the Member with the Rules.

In particular, Trading Members shall keep accurate, complete and accessibly formatted records of all Agreed Trades and resulting Contracts and such records shall include the following details:-

(a) name of the other party;

[...]

(n) evidence of compliance with Regulations 2.2A, 2.4A and 2.5A;



[...]

3.12 Agreed Trades as Gross Transactions

Each Member shall ensure that the details of each Agreed Trade arranged in the inter-office market that is input by or on behalf of the Member into the Matching System shall constitute the details of a single, distinct transaction, without the application of any netting, compression or aggregation by the Member of multiple transactions or Agreed Trades, except where:

- (a) the Member has aggregated Agreed Trades representing either multiple buy or multiple sell transactions (being transactions in the same direction) for a single Client and/or
- (b) where Agreed Trades representing multiple buy or multiple sell transactions (being transactions in the same direction) for a single Client have their Prompt Date adjusted to another date in compliance with the Rules and in particular Regulation 2.5A.

For the exceptions in (a) and (b) above to apply, a Member shall ensure that each Agreed Trade made in the inter-office market complies with Regulation 2.4A and Regulation 2.5A.

For the avoidance of doubt, this provision is without prejudice to the ability of a Member to participate in the OTC Backloading Service in accordance with the Matching Rules and the Clearing House Rules.

[...]