



APPENDIX

Revised June 2017

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

INTRODUCTION AND PURPOSE

1. This document is designed to provide market participants on the London Metal Exchange (LME), and particularly Clients of Members, with an overview of the structure of the LME, market terminology, and order execution. 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 document is not a substitute for reading the LME Rulebook, relevant Notices, or the terms of business agreed between Clients and Members. It is not binding on the LME and is provided by way of guidance only.
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: by open outcry in the Ring (during ring and kerb sessions), between Members in the inter-office market, and over the Exchange's electronic trading system, 'LMEselect'.

The Ring

5. Only Category 1 Members may trade in the Ring.
6. Clients can follow the 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 prices traded during ring and kerb sessions on price vendor information services such as Reuters.

7. 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 using the 'order styles' mentioned below.

Inter-office

8. 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.

LMEselect

9. Category 1, 2, 3 and 4 Members may be LMEselect participants and enter into Contracts ('LME Contracts') on LMEselect.
10. LMEselect allows LMEselect participants to trade LME Contracts, including (but not limited to) Futures Contracts, Metal Options, Traded Average Price Options, Monthly Average Price Futures, LMEmini Contracts and Index Futures. Some brokers offer their Clients an order-routing facility via an API where they can view LMEselect prices, execute trades, and place resting orders. All trading on LMEselect is in US dollars.
11. Depending on the time of day, it is possible for Members to deal by telephone or electronically in the inter-office, by LMEselect, or in the Ring. Clients should specify which mechanism their broker should use to effect an order, where they have a preference.
12. Information vendors will display, amongst other things, firm prices of the best bid and offer available on LMEselect, the total volumes available at these prices, and the price and volume of each trade. Clients may effect back-to-back Client Contracts with Category 1, 2 and 4 Members based upon prices



available on LMEselect, whether on the telephone or via electronic order-routing systems.

13. Where a Member permits a Client to use the order-routing facility of the LME Select API, this will give rise to a Client Contract as well as one or more Cleared Contracts. 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 Clearing Member must ensure that the Client Contract and the relevant Cleared Contracts are input into the Matching System.

Contract Formation & Clearing

14. 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 Exchange's Matching System, 'LMEsmart', of all Agreed Trades by it in relation to Contracts.
15. Cleared Contracts are cleared by the LME's appointed clearing house, LME Clear. LME Clear clears LME Contracts on an open offer basis. The Clearing House 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 the Clearing House'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 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 the pre-execution checks have been satisfied; and
 - Agreed Trades in the inter-office telephone market – these will initially form "Contingent Agreements to Trade", the particulars of which the parties must then submit to the LME 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 the pre-execution checks have been satisfied.

16. Where an Agreed Trade is made with a Client, upon execution of the Agreed Trade a Cleared Contract 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 Contract¹.
17. 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.

Principal Nature

18. All LME Contracts are between parties acting as principals. This prevents any party entering into an LME Contract as agent for someone else but does not prevent an agent arranging a Contract between two parties if the resulting LME Contract is between disclosed parties, each acting as a principal. It is an essential requirement of an LME 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 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 a transaction.
19. In respect of Agreed Trades between Members, an LME broker buying metal from another LME broker cannot do so as agent for its Client. Where an LME broker buys metal from another LME broker 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. Brokers and Clients can agree the conditions that apply to their Client Contracts. For example, a Client may make it a condition of its Client Contract that the broker must enter into a back-to-back Agreed Trade with

¹ 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.



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 the Clearing House) but does create additional duties and obligations owed by the broker under the Client Contract.

20. Clients should be clear about the conditions that apply to their Client Contracts and about the obligations and duties that the broker owes as a result of those conditions.
21. Brokers should be clear about the duties and obligations they owe as a result of conditions attaching to their Client Contracts. They should also be clear about the duties they owe to their Clients under the FCA's Conduct of Business Rules (COB).
22. Only Category 1, 2 and 4 Members may issue Client Contracts. Open position statements issued to Clients must state clearly 'THIS IS AN LME REGISTERED CLIENT CONTRACT'. Contract criteria relating to LME Contracts, including metal specifications, acceptable currencies, prompt dates, option strike prices for metals etc. are detailed in the LME Rulebook and appropriate Notices.
23. Where Members enter into 'over-the-counter' (OTC) contracts in respect of LME deliverable metal, the contract should clearly state that 'THIS IS NOT AN LME REGISTERED CLIENT CONTRACT'. 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.

Dual Capacity

24. Members may act both in the capacity of market maker and broker. They 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, not least, the Client's instructions. Client orders may be filled directly from a Member's 'book' or following the purchase/sale of metal in the LME market. Furthermore, Client orders may be offset, amalgamated, broken-up or netted for execution. These methodologies apply equally to orders



whether any resulting Agreed Trades are effected in the Ring, in the inter-office market, or on LMEselect.

25. Clients with specific order requirements must make these known to the Member at the time the order is placed. Clients wishing to know how their order was executed should request such information from the Member.

ORDER STYLES

26. 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

27. Client orders are not traded in the Ring, so an order using the term 'in/on/during the ring/kerb' will be executed on the basis of the prices traded/quoted during the particular session. If a Client requires their order to be 'shown' or traded across the ring/kerb 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-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 trades 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.
28. 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.

Market

29. 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.

Best

30. Order styles on the LME using the word 'best' confer some discretion upon the Members when executing the order, requiring them to use their 'best endeavours' on the Client's behalf. The extent of the discretion is fixed by the terms of the order. This type of order is distinct from 'best execution' as defined by the FCA.

31. Best orders may be executed both on 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 booked the metal intended to fill the order. At any given time, the best price on LMEselect will be displayed on the system and by the information 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.

Close

32. Most orders placed 'on the close' are for either the close of the second ring (official LME prices) or the final kerb (closing prices). Both of these prices are published. Closing prices for other sessions are harder to determine, although the LME does publish unofficial prices which are established at the close of the fourth 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. A closing price on LMEselect is the last price traded before the system closes.

Open

33. 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

34. 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. Stop loss orders become market orders when a trade, or a bid or an offer triggers the stop, with Members then executing the order at the current market price.
35. It is possible for a Client not to receive a 'fill' on a resting order despite the 'trigger' point being 'touched'. This could be due to a number of circumstances such as order priority, illiquidity, prevailing market conditions 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.
36. 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 ('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

37. It is possible for Clients to ask Members to place resting orders in LMEselect. Where the broker has an order-routing system into LMEselect, Clients will be able to place orders through that order routing system. The system accepts GTC orders (for Cash and 3 month prompt dates only) and will also permit other variations such as 'Good for Day'. There are also certain other LMEselect-specific order types such as 'Iceberg'², 'Discretionary'³, 'Scaling'⁴ and 'Fill or Kill' orders⁵.

SEGREGATION & PORTABILITY

Segregation

38. When registering Agreed Trades in the Matching System, a Clearing Member must specify 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 there is an accompanying back-to-back Client Contract) the registration must align the Contract to a specific "omnibus" or "individually segregated" account at LME Clear. Members are required to offer Clients a choice of either type of account. The distinguishing factor between the two is: either (i) an "omnibus" account which has assets and positions

² 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 affect with the next order quantity to be placed, the current open quantity seen by the market does not change.

³ A discretionary order allows a trader to place an order with a discretionary price. This discretionary price remains hidden from view by the market. A discretionary 'Bid' order will only trade when an opposing order is placed with an order price equal to or less than the discretionary price. For an 'Ask' order the opposing order price must equal to or exceed the discretionary order price.

⁴ 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.

⁵ 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.



allocated to it for multiple Clients; or (ii) an “individually segregated” account which has assets and positions allocated to it for a single Client.

Portability

39. Where there is an Event of Default in relation to a Member and a Client wishes to transfer its positions from an account maintained with the defaulting Member to a solvent Member, it must notify LME Clear in accordance with the procedures set out by LME Clear from time to time. Failure to adhere to the procedures of LME Clear within the prescribed timescales may result in the positions of a Client being closed out by the clearing house. The LME Rules contain provisions to ensure that, where any Cleared Contract is ported in accordance with LME Clear’s Rules, the back-to-back Client Contracts shall also port.