



Updated: 22nd December 2020

# Order Execution Policy

WHERE AMT IS ACTING AS AN EXECUTING BROKER

## APPLICATION

This Policy has been prepared in accordance with the requirements of the Markets in Financial Instruments Directive ("MiFID II") and Chapter 11 of the FCA New Conduct of Business Sourcebook. It is designed to ensure that you have a good understanding of AMT's order handling process. If anything here is not clear, please do not hesitate to discuss this with your Account Executive or with AMT's Compliance Dept – [amtcompliance@amcgroup.com](mailto:amtcompliance@amcgroup.com)

When executing market orders on your behalf in relation to financial instruments, we will take all reasonable steps to achieve "best execution" of your orders. This means taking all reasonable steps to achieve the best possible result for executing your orders by following our order execution policy and subject to any specific instructions received from you. We will do this by following procedures which are designed to obtain the best possible execution result, subject to and taking into account the nature of your orders, the priorities you have identified to us in relation to filling of those orders and the conditions and practices relating to the market in question with the aim of producing a result which provides, in our view, the best balance across a range of sometimes conflicting factors.

## EXECUTION VENUE

Where you give us an order for LME business (or an order on any other Exchange) the LME (or such other Exchange) will be the venue for execution of your order.

As far as exchange-traded contracts are concerned, AMT is currently a member of the LME only. AMT considers the possibility of joining other Exchanges from time to time but with the LME's pre-eminence in base metal trading, it is not currently considered that there are likely to be any competing execution venues in the near future. Any changes to this situation will appear on our website at [www.amt.co.uk](http://www.amt.co.uk)

Within the LME, orders may be executed in one of three alternative ways:

- 1) – the LME Ring;
- 2) – LMESelect;
- 3) – via the inter-office market.

Please find attached(\*), LME Member Notice 20/284 dated 18<sup>th</sup> December 2020 which includes an Appendix entitled "A Guide to the Structure, Market Terminology and Order Execution of the London Metal Exchange". This will help to explain how the LME works and the main types of orders recognised in the market.

## ORDERS

We will regard ourselves to be typically executing orders on your behalf where in each case the relevant activities relate to "financial instruments" as defined in MiFID II and you legitimately rely on us to protect

your interests in relation to the pricing or other elements of the transaction which may be affected by us when executing your order. This would include:

- where we act as a quasi-agent on your behalf in executing a transaction (and we use the term “quasi-agent” because all our dealings are, legally, on a principal-to-principal basis);
- where we “work an order” on your behalf; or
- where we execute your order by dealing as riskless principal.

Client orders have preference over trader’s positions except where the trader is already bidding/offering at that price.

## AGGREGATION OF ORDERS

AMT’s Client Agreement authorises us to aggregate client orders together and with our own orders. Client orders will be aggregated if they are received at the same time. Otherwise, the general rule is that all orders are executed in due turn. It is therefore rare to aggregate orders but this may occur in exceptional cases eg where similar orders may be received in very close succession for execution in the LME Ring. If our own orders are aggregated with client orders at any time, our orders would not be allocated to your detriment.

## QUOTES

The LME is a wholesale market with good price transparency. Most market users are familiar with its operation and the dual capacity of LME brokers (please see paragraphs 35 to 44 of the above LME document for further information in connection with this). When quotes are requested, you should be mindful of the fact that other brokers may be prepared to quote on a more competitive basis. Most dealings on the basis of quotes are initiated by clients. In these circumstances, you should not place reliance on AMT, and the best execution obligation will not apply, where we provide you with a quote and you decide whether or not to trade on the basis of that quote.

## BEST EXECUTION CRITERIA

When executing a client order, we will take into account various criteria including:

- 1) any relevant characteristics of the client (although please note that AMT does not trade with retail clients);
- 2) the characteristics of the client order;
- 3) the characteristics of financial instruments that are the subject of that order;
- 4) the characteristics of the execution venues to which that order can be directed.

## ROLE OF PRICE AND OTHER FACTORS

We will normally regard price as the most important factor in executing client orders, particularly where an order is of reasonable size in relation to the market and there is good liquidity. However, at various times and especially with the less frequently traded contracts, there may be poor liquidity leading to difficulties in execution. In these and comparable circumstances, other factors may need

to be considered. These include:

- the size and type of order
- likelihood of execution and settlement

- speed of execution
- any associated costs
- any additional risks in execution

These factors are in no particular order or priority. All or a number of the factors may come into play at various times and we do not believe that it is practicable to give them any order of prominence.

Indeed, most of these (apart from the possibility that a trade cannot be executed at a particular time) will simply have an effect upon the price. We will, of course, take particular account of any specific instruction from you in connection with the above.

Please remember that whilst our policy and procedures are designed to give you “best execution”, this does not mean, and we cannot guarantee, that we will be able to achieve the highest/lowest price (as appropriate) for every client order.

## YOUR SPECIFIC INSTRUCTIONS

We will always seek to follow your specific instructions in executing an order or, if it becomes impracticable to do so for any reason, we will seek your further instructions.

**Please remember, however, that your specific instructions may prevent us from applying our best execution policy to those aspects affected by your instructions.**

Where any such instructions are inconsistent with our best execution policy, our policy will still apply to the extent it is consistent with your instructions.

## MONITORING AND REVIEW OF ORDER EXECUTION POLICY

We will monitor our Order Execution Policy and the effectiveness of our arrangements for order execution on a regular basis. The Policy itself will be subject to an additional review on an annual basis. We will assess whether our existing arrangements continue to allow us to fulfil our obligation to provide you with best execution. The Policy will be amended to take account of any material changes and any such amended Policy will be published on our website [www.amt.co.uk](http://www.amt.co.uk). If any changes are considered to be particularly significant, we will contact you directly to draw your attention to such changes.

## Dealings outside a “Trading Venue”

The LME is a “Regulated Market” under the FCA Rules (derived from the provisions of MiFID II) and it is also a “Trading Venue” (which term also includes a Multilateral Trading Facility (“MTF”) and also an Organised Trading Facility (“OTF”) – venues which AMT does not currently use). Most of our trading on behalf of clients is either on, or closely related to the LME (eg averaging contracts and OTC “look-a-like” contracts which, whilst being off-exchange contracts, incorporate most of the provisions of the LME Rules). However, please remember that such contracts are technically made outside a Trading Venue.

We are required by MiFID II to obtain your express consent to any trading outside a Trading Venue, which we will do by asking you to sign and return Schedule 2 of AMT’s Professional Client Agreement. This would include eg OTC trading.

## OTC Trading

AMT will, on request, trade LME approved metal on an OTC ('Over the Counter') basis. This Policy will apply, on a similar basis, to all such trades.

## Bullion and other Precious Metal Trading

All bullion and precious metal trading is undertaken on an OTC basis subject to the Rules of the LBMA (London Bullion Market Association) or the LPPM (London Platinum and Palladium Market). AMT has expressly endorsed and supported the principles set out in the LBMA's Global Precious Metals Code (April 2018). A copy of the Code is available on our website.

Trading is generally undertaken on the basis of quotes and the same principles apply as set out above, such that the obligations of best execution will not normally apply.

## Monitoring and Review of Order Execution Policy

We will monitor our Order Execution Policy and the effectiveness of our arrangements for order execution on a regular basis. The Policy itself will be subject to an additional review on an annual basis. We will assess whether our existing arrangements continue to allow us to fulfil our obligation to provide you with best execution. The Policy will be amended to take account of any material changes and any such amended Policy will be published on our website [www.amt.co.uk](http://www.amt.co.uk). If any changes are considered to be particularly significant, we will contact you directly to draw your attention to such changes.

To: All Members and other interested parties

Ref: 20/284

Classification: General updates Technical

Date: 18 December 2020

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

## Summary

1. The Exchange (“LME”) has revised its guide to the structure, market terminology and order execution of the LME (the “Guide”)

## Background

2. The LME has published the Guide for a number of years. The Guide is revised periodically to reflect market developments.
3. The LME last revised the Guide on 26 May 2020 by LME Notice 20/139. The LME has now revised the Guide to introduce additional information on two key areas:
  - (i) The Systematic Fixed Price Auction (“SFPA”) which is now operational in LMESmart. For in scope orders, the auction process will start at the point LMESmart matches the PTT orders and last for a period of 30 seconds.
  - (ii) Changes relating to prohibited order types, e.g. discretionary orders.

## Revised Guide

4. The revised Guide is attached to this Notice (appendix I).

## Distribution and Availability

5. Members are encouraged to review the revised Guide. Additionally, as part of Members’ account opening procedures, the Guide should be distributed to all new Clients intending to trade LME products.
6. The Guide will also be available on the LME website at <https://www.lme.com/About/Market-Regulation/Guide-to-market-structure>.

**James Cressy**  
**Chief Operating Officer**  
cc: Board directors



## Appendix I



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

### **INTRODUCTION AND PURPOSE**

1. This Guide is designed to provide market participants on the London Metal Exchange (the “LME”), and particularly Clients of Members, with an overview of the structure of the LME, market terminology, and order execution. It is also intended as guidance to help participants interpret the Rules and Regulations of the LME (the “LME Rulebook”) and any Notice issued pursuant to Regulation 2 of Part 1 of the LME Rulebook (together the “LME Rules”) (and also in certain circumstances the Rules and Procedures of LME Clear Limited (the “LME Clear Rules”)) and to outline certain behaviours the LME expects of its market participants. 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 Guide is not a substitute for reading the LME Rules, the LME Clear Rules or the terms of business agreed between Clients and Members. In the event of any conflict between this Guide and either the LME Rules or the LME Clear Rules, the LME Rules and the LME Clear Rules shall prevail.
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 (defined as Execution Venues in the LME Rulebook): by open outcry in the Ring (during ring and kerb sessions), between Members in the inter-office market, and over the LME’s electronic trading system, LMEselect. LME trading times are available on the LME website at <https://www.lme.com/en-GB/Trading/Trading-venues/Trading-times#tabIndex=0>.



5. Depending on the time of day, it is possible for Members to deal in the inter-office market, by LMEselect, or in the Ring. Clients should specify which mechanism their broker should use to effect an order, where they have a preference.

### **The Ring**

6. Only Category 1 Members may trade in the Ring.
7. Clients can follow the Ring 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 quotes and trades during Ring and kerb sessions to market data vendor information services, and via its own market data platforms.
8. 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.
9. Certain Contracts<sup>1</sup> are not available for trading in the Ring.

### **Inter-office**

10. 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.

11. To ensure adequate transparency in this market (as required by MiFIR), the LME operates a Systematic Fixed Price Auction (“SFPA”). For those in scope orders, the auction process will start at the point the LMEsmart matches the PTT Orders and last for a period of 30 seconds. During this period, any Member (other than

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<sup>1</sup> Metal Options, Traded Average Price Options, Monthly Average Futures, LMEmini Contracts, Steel Scrap, Steel Rebar, Steel HRC FOB China, Steel HRC N. America, Cash Settled Cobalt, Molybdenum, Alumina, Gold and Silver.





a RIB) is able to enter their own bids/offers into that auction in LMEsmart, at the same price as the originating orders. Upon the completion of the SFPA, the bids and offers remaining in LMEsmart will be matched on a time priority basis.

## **LMEselect**

~~11.12.~~ Category 1, 2, 3 and 4 Members and LMEprecious Members may be LMEselect Participants and enter into Contracts on LMEselect. In addition, Category 1, 2 and 4 Members may make available to a Client the order-routing facility of the LMEselect API.

~~12.13.~~ LMEselect allows LMEselect Participants to trade Contracts, including (but not limited to) Futures Contracts, Metal Options, Traded Average Price Options, Monthly Average Price Futures, Ferrous Cash Settled Futures, Non-Ferrous Cash Settled Futures and LMEmini Contracts. As explained above, some brokers offer their Clients an order-routing facility via an API where they can place orders, and execute trades.

~~13.14.~~ Subject to relevant licensing requirements, market data vendors may display, amongst other things, bid and offer prices available on LMEselect, the total volumes available at these prices (subject to iceberg orders – see paragraph ~~634~~ below), and the price and volume of each trade.

~~14.15.~~ Where a Member permits a Client to use the order-routing facility of the LMEselect API, and, as a result, (a) one or more Cleared Contracts comes into effect, and (b) one or more Client Contracts come into effect, then 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 Member must ensure that the Client Contract and the relevant Cleared Contracts are inputted into the Matching System, and that Client orders are not offset against each other (for further information, see the section entitled “Transacting on behalf of Clients” below).

~~15.16.~~ The LME understands that Members may offer over-the-counter (“OTC”) contracts to their clients on the basis of electronic orders sent to the Member (for example through the Member’s own dealing system). The Member may directly hedge such OTC contracts on LMEselect (by entering into a Cleared Contract, but without giving rise to a back-to-back Client Contract), provided that



the OTC contracts will be considered Relevant OTC Contracts for the purpose of the LME's Financial OTC Booking Fee Policy (for further information on this Policy, see the section entitled "OTC Contracts and Use of LME IP" below).

## Contract Formation and Clearing

~~16.~~17. 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 LME's Matching System, LMEsmart, of all Agreed Trades by it in relation to Contracts.

~~17.~~18. Cleared Contracts are cleared by the LME's appointed clearing house, LME Clear. LME Clear clears Contracts on an open offer basis. LME Clear 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 LME Clear'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 Execution 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 all pre-execution checks have been satisfied; and
- Agreed Trades in the inter-office telephone market – these will initially form a Contingent Agreement to Trade, the particulars of which the parties must then submit to the 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 all pre-execution checks have been satisfied. [This remains the case for trades that arise from a SFPA \(save in the case of trades between RIBs and their clients, which shall initially give rise to an obligation on the RIB to submit the particulars of the initiating auction pair to the Matching System, rather than giving rise to a Contingent Agreement to Trade – see further Part 3 of the LME Rules.\)](#)



~~18-19~~. Where an Agreed Trade is made with a Client, upon execution of the Agreed Trade, Cleared Contracts 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 Contract<sup>2</sup>. Where the Clearing Member facilitates Indirect Clearing arrangements, i) a further Client Contract will arise between the Client and the Indirect Client (where the Client is a Category 4 Member or LMEprecious Non-Clearing Member) or ii) a back-to-back exchange traded derivatives contract will be formed between the Client and the Indirect Client (where the Client is not a Category 4 Member or LMEprecious Non-Clearing Member).

~~19-20~~. 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.

### **LME Base and LMEprecious**

~~20-21~~. The LME offers contracts in base and ferrous metals (described in the LME Rules as “LME Base Contracts”) and precious metals (described in the LME Rules as “LMEprecious Contracts”). The LME has seven different categories of membership for the LME Base Service and three different categories of membership for the LMEprecious Service. LMEprecious Contracts are operationally traded in the same way as existing LME Base Contracts, using the same systems, connectivity and rulebook, with some minor differences.

~~21-22~~. One of the key differences is that the LME Base Service and the LMEprecious Service differ in the way that Agreed Trades are booked in LMEsmart. Where an Agreed Trade relates to an LME Base Contract, it shall be booked in LMEsmart in a manner to ensure the following allocation:

- a. an Agreed Trade between two Clearing Members shall be allocated to each Clearing Member's house account at LME Clear;

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<sup>2</sup> 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.



- b. an Agreed Trade between a Client and the Clearing Member responsible for clearing the Agreed Trade shall result in the allocation of Cleared Contracts to both the Clearing Member's house account and the Clearing Member's appropriate client account at LME Clear; and
- c. an Agreed Trade between a Client and any other person shall result in the allocation of Cleared Contracts to both the house account of the Clearing Member responsible for clearing the Agreed Trade and the client account of the Clearing Member responsible for clearing the Agreed Trade.

22-23. This is sometimes referred to as a “T4” model. In cases (b) and (c) above, the trade will initially be entered into the house account, and the Clearing Member responsible for clearing the Client’s trades must cross the trade out of the house account into the client account.

23-24. On the other hand, where an Agreed Trade relates to an LMEprecious Contract it shall be booked in LMEsmart in a manner to ensure the following allocation:

- a. an Agreed Trade that is a proprietary trade of an LMEprecious Clearing Member shall be allocated to the house account of the LMEprecious Clearing Member at LME Clear; and
- b. an Agreed Trade made by a Member, and for which an LMEprecious General Clearing Member is responsible for clearing such Agreed Trade, may be allocated either to a house account of the LMEprecious General Clearing Member (where the Agreed Trade is a proprietary trade of the LMEprecious General Clearing Member) or a client account of the LMEprecious General Clearing Member (in any other circumstance).

24-25. This is sometimes referred to as a “T2” model. In contrast to the T4 model, there is no need initially to enter an Agreed Trade on behalf of a Client into the house account and then cross it out of the house account into the client account.

25-26. There are also different settlement mechanisms for different Contracts: most LME Base Contracts are physically deliverable (with the exception of certain Contracts, including Ferrous and Non-Ferrous Cash Settled Futures, and so certain categories of Members must be LMEsword Account Holders for the LME



Base Service. LMEprecious Contracts, on the other hand, settle against unallocated precious metal via an account at a Precious Metal Clearer.

## Principal Nature

26-27. All Contracts are between parties acting as principals. This prevents any party entering into a Contract as agent for someone else but does not prevent an agent arranging a Contract between two parties if the resulting Contract is between disclosed parties, each acting as a principal. It is an essential requirement of a Client Contract that one party must be a Category 1, 2 or 4 Member (or the equivalent LMEprecious category<sup>3</sup>). A list of Members is on the LME website: [www.lme.com](http://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, to 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 an order.

27-28. In respect of Agreed Trades between Members, an LME broker buying futures or options Contracts from another Member cannot do so as agent for its Client. Where a Member buys metal from another Member 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. Members and Clients can agree the conditions that apply to their Client Contracts. For example, a Client may make it a condition to its entry of a Client Contract that the Member must enter into a back-to-back Agreed Trade with 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 LME Clear) but does create additional duties and obligations owed by the Member under the Client Contract.

28-29. Open position statements issued to Clients or Indirect Clients<sup>4</sup> of a Category 1 or 2 Member must state clearly “THIS IS AN LME REGISTERED CLIENT CONTRACT”. Open position statements issued by Clients who are not Category 1, 2 or 4 Members to their own clients<sup>5</sup> should not state that the contracts are

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<sup>3</sup> A Category 2 Member is equivalent to an LMEprecious General Clearing Member. A Category 4 Member is equivalent to an LMEprecious Non-Clearing Member.

<sup>4</sup> An “Indirect Client” of a Clearing Member pursuant to the LME Rules may include a Client of a Category 4 Member or LMEprecious Non-Clearing Member.

<sup>5</sup> Such Clients being indirect clients of the Category 1, 2 or 4 Member but not “Indirect Clients” pursuant to the LME Rulebook.



LME Registered Client Contracts, but may state that they are LME exchange-traded derivatives (or similar) to distinguish them from OTC trades provided that they have entered into Indirect Clearing Arrangements in accordance with the LME Rules. Contract criteria relating to Contracts, including metal specifications, acceptable currencies, prompt dates, option strike prices for metals etc. are detailed in the LME Rules.

## **OTC Contracts and Use of LME IP**

29-30. Instead of entering into Contracts governed by the LME Rules, Members and other third parties may enter into OTC contracts either in respect of LME Warrants, or utilising LME reference prices. Where this is the case, the contract should clearly state that “THIS IS NOT AN LME REGISTERED CLIENT CONTRACT”. OTC contracts are not governed by the LME Rules and are not registered with, and/or cleared by, LME Clear. OTC contracts result in a bilateral credit exposure between the two parties. In the case of a party’s default, the general law of insolvency would apply and neither party would benefit from any protection under the LME’s and LME Clear’s purpose-designed default rules. Also, contracts that are opened and closed at the same broker do not benefit from the transparent global pool of competitive offers which the LME facilitates. Members providing their clients with OTC contracts should explain to their clients the difference between OTC contracts and the LME’s Contracts, and the different levels of protection afforded by each.

30-31. The LME applies a Financial OTC Booking Fee Policy on Members and other third party financial intermediaries who reference LME prices or other proprietary information in their OTC contracts. Such entities must register with the LME, report relevant OTC trades, and pay the relevant fees<sup>6</sup>. 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.

31-32. The LME Rules also contain restrictions on: (a) the use of LME Data, Product Specifications or other Intellectual Property Rights for the purpose of trading, clearing or settling Non-LME Platform Contracts; (b) using LME Warrants to

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<sup>6</sup> For further information, see <https://www.lme.com/Trading/New-initiatives/Financial-OTC-Booking-Fee>.



settle Non-LME Platform Contracts or the Ex-Cleared functionality of LMEsword to facilitate the settlement of Non-LME Platform Contracts; (c) using the inter-office market to route Non-LME Platform Contracts through the systems of the LME; and (d) bringing onto the LME Non-LME Platform Contracts.

32-33. Any Member operating electronic dealer-to-client platforms for OTC contracts will also need to consider the relevant provisions of MiFID II relating to systematic internalisers, pre- and post- trade transparency, etc.

### **Transacting on Behalf of Clients**

33-34. When transacting on the LME's Execution Venues, Members may transact both for their own account (i.e. on a proprietary basis, including where they are making prices on the LME) and on behalf of other market participants (i.e. as broker).

### **Dual Capacity**

34-35. The LME's market model operates such that Members are able to operate on both a proprietary basis and on behalf of its Clients at the same time, and by the same traders. This means that when trading with a Client, the Member can fill the Client directly from their own proprietary trading book, rather than going to the central market, and thus act both on behalf of the Client and their proprietary interest at the same time. In this context, the Member is acting in so-called "dual capacity". As such, the nature of the contracts traded by the Member with the Client, and the Member with the market, may be different. This differs from so-called "agency execution", whereby the Member solely acts on behalf of the Client in the central market. It should be noted that some execution on the LME market (generally in respect of more liquid prompt dates) may be undertaken under an agency execution model. The complexity of the LME prompt date structure, and the lack of liquidity in the central market for parts of the structure mean that this dual capacity model is advantageous, as it allows Members to directly provide their Clients with liquidity. The dual capacity model does however give rise to specific risks of ensuring a duty of care to the Client. The LME expects Members who are permitted to transact both on their own account and on behalf of other market participants to understand the specific compliance risks of each respective transaction model and have adequate systems in place to mitigate against these risks.



35-36. Members 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 (in relation to Client business), not least, the Client's instructions. Client orders may be filled directly from a Member's "book", or following the purchase/sale of Contracts in the LME market, or a combination of the two.

36-37. The validity and desirability of this market structure was confirmed during the LME's 2017 Discussion Paper, and the LME is committed to its maintenance for as long as it remains consistent with both the needs of its users and the LME's regulatory obligations.

### **Considerations Around Dual Capacity Execution**

37-38. Clearly, the dual capacity model places a greater onus on Members to demonstrate that they act in the best interests of their Client. While it is for Members to satisfy themselves and their Clients of the sufficiency of their arrangements, the LME would make certain observations as to the behaviours which it would expect to observe in a dual capacity market. This represents a non-exhaustive list.

38-39. At the heart of such a model must be a clear understanding between Member and Client as to the basis on which execution is being undertaken - in particular, whether a particular Client order is to be executed under a dual capacity or an agency model. It is expected that Members are clear with their Clients in respect of the execution model.

39-40. Furthermore, Clients should be made aware of the fact that - as a natural corollary of the dual capacity model - the Member may eventually be able to hedge the risk at a more attractive price than that offered to the Client. The LME understands that Clients are, in general, satisfied with such a model (given that the Member is, in effect, being compensated for accepting the risk associated with the trade).

40-41. The dual capacity model also places responsibilities on Clients – for example, Clients with specific order requirements must make these known to the Member at the time the order is placed.





41.42. The LME further recognises that certain Client execution scenarios may be more complex. For example, a Member may seek to trade a Client order in the market, while guaranteeing the Client a particular price for their order. In such a case, it would again clearly be necessary for the Client to be fully aware of the Member's execution approach - and, in particular, the impact on the Client's economic terms, were the Member to subsequently obtain a price better than that guaranteed to the Client.

42.43. Clearly, the broader rules of market conduct (arising from, without limitation, the European Market Abuse Regulation) apply to firms trading on the LME market, whether such firms are operating in an agency execution or dual capacity model. Restrictions on activities such as front-running apply when operating in a dual capacity market and also when acting in agency execution - and, in particular, the LME would differentiate between (i) Member trades made purely for the purposes of offsetting risk from a Client position, and (ii) Member proprietary trading. The latter activity, in particular, must be appropriately segregated from Client execution (whether such Client execution is under a dual capacity or agency execution model).

43.44. Clients should be clear about the conditions that apply to the terms on which their Client Contracts are traded and about the obligations and duties that the Member owes as a result of those conditions. Members should be clear about the duties and obligations they owe as a result of the conditions attaching to the terms on which their Client Contracts are traded.

### **Rules Preventing Netting Up**

44.45. The LME is concerned to ensure that the market can view a transparent post-trade record of market activity and that financial advantage is not extracted by the systematic “netting up” of trading designed to reduce the fee burden. Consequently, Members must ensure that, in respect of trades arranged in the inter-office market or on LMEselect, the details of each Agreed Trade entered into the Matching System constitute the details of a single transaction, without the application of any prior netting, compression or aggregation of multiple transactions. However, prompt date adjustments are permissible. Furthermore, Members must ensure that, in respect of both Client and Members’ house orders normally intended to be entered into LMEselect, Members must not cross-up



any such trades in their own systems before they are executed as Agreed Trades in LMEselect.

## Conduct of Business Rules

45-46. Members are reminded that they may be subject to certain conduct of business rules, and other regulatory obligations, pursuant to MiFID II and the rules and regulations of the FCA and other relevant regulators. The LME also reminds Members that from time to time regulators, including but not limited to the FCA, issue notices, updates and guidance to the market, which the LME expects its Members to review, consider and, where appropriate, implement into their policies, procedures and systems.

46-47. Members may also be subject to additional regulatory obligations in the jurisdictions in which they are incorporated or otherwise operate. The extent to and way in which these obligations may apply will depend on a range of factors including, amongst others, the nature of the relationship between the relevant Member and its Client, the Execution Venue in question, the terms of business between the Member and its Client, the Member's regulatory status, and any internal compliance policies and procedures to which the Member is subject.

47-48. Compliance with all applicable rules and regulations is (where applicable) the sole responsibility of the Member and Members must seek their own advice in this regard.

48-49. Whilst by no means an exhaustive list, and of particular interest in the context of Client business, the LME wishes to draw Members' attention to the following:

**Conflicts of interest** – Members must take all appropriate steps to identify and to prevent or manage conflicts of interest. This requires Members to actively identify circumstances in which potential and actual conflicts of interest may arise, and to establish arrangements to prevent or manage them effectively. Members should have regard to relevant regulatory requirements and guidance on conflicts of interest, including in relation to Payment for Order Flow or "PFOF"<sup>7</sup>. PFOF is described as occurring when an investment firm (typically a

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<sup>7</sup> See particular 2019 FCA guidance at <https://www.fca.org.uk/publication/multi-firm-reviews/payment-for-order-flow-pfof.pdf>.



broker who both sources liquidity and executes orders for its client) receives a fee or commission from both the client that originates the order and the counterparty the trade is then executed with (typically a market maker or other liquidity provider). The LME is aware that some Members and authorised representatives of Members do act as agents for their clients (for example, when a Member is acting purely in a broking capacity) and Members are therefore reminded of the requirement to comply at all times with their regulatory obligations. In particular, where a Member is sourcing exclusive liquidity (and executing orders) for a specific client, charging the counterparty to the client's transaction creates a conflict the firm cannot manage effectively and so should prevent (i.e. by ceasing to charge PFOF), regardless of the client's categorisation. Even where a Member is sourcing non-exclusive liquidity for eligible counterparties (as defined in the FCA COBS), a conflict of interest is likely to arise and must, at a minimum, be subject to appropriate controls. It is therefore important that firms correctly identify the nature of their activities, on a transaction-by-transaction basis, to ensure the appropriate prevention or management of conflicts of interest from charging both sides of transactions.

**Fees and inducements** – Members must disclose certain information to Clients in relation to the services to be provided to them. This information includes, amongst other things, information regarding all the costs and related charges that apply to the relevant service(s). In an LME context, this is likely to include any commission or mark-up on LME fees that may be applied by a Member to the fees charged to their Client. Members are expected to periodically review their pricing structures to ensure that when acting in an agency role for their Client, they are not inappropriately charging commission (or however otherwise characterised) to the counterparty that their Client's trade was executed with. Members should also not pay or accept any inducement (i.e. payment and receipt of fees, commissions and non-monetary benefits) in relation to an investment service unless it falls within a "safe harbour" (e.g. where a payment received by the Member is paid to the Client).

**Best execution** – Members within the scope of the best execution rules are required to take all sufficient steps to obtain the best possible result for their Clients when executing Client orders (or passing them on to other firms for execution). To the extent that firms follow specific instructions from their clients relating to the order, the firm should satisfy its best execution obligations.



Members should be aware that in an LME context, the best execution obligation may apply differently depending on whether a Member is acting in a proprietary capacity giving a Client a firm quote, or acting on an agency basis working an order for a Client. Members should ensure that their Clients are aware of the capacity in which the Member is acting, and thus understands the best execution rules that apply.

**Client order handling** – Members that execute orders on behalf of Clients must implement procedures and arrangements to provide for the prompt, fair and expeditious execution of Client orders relative to other orders or the trading interests of the Member. In accordance with MiFID II and the FCA conduct of business requirements, Members must also satisfy certain conditions when carrying out Client orders, and when carrying out a Client order or a transaction for their own account in aggregation with another Client order.

### **Risk Management Systems and Controls to Detect, Deter and Deal with Potentially Abusive Trading Activity**

[49-50.](#) Members are reminded, pursuant to their obligations under Regulation 12.6(b) of Part 2 of the LME Rulebook, of the importance of having in place appropriate and adequate systems and controls to detect, deter and deal with trading activity that is indicative of market abuse<sup>8</sup>. This section is intended to give guidance as to how the LME would assess the adequacy of a Member's systems and controls during a Member audit or investigation. Members should note disciplinary proceedings brought by the LME against Members for systems and controls failings, resulting in financial penalties for the Members concerned.

[50-51.](#) When undertaking an assessment into the adequacy of their systems and controls, the LME considers it prudent for Members to produce a market abuse risk assessment in order to assess the potential market abuse risks to which they are exposed. Failure to have produced a market abuse risk assessment may constitute evidence of poor systems and controls.

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<sup>8</sup> For the avoidance of doubt, the obligations of a Member under Regulation 12.6(b) of Part 2 of the LME Rulebook apply not only to the obligation to have in place appropriate and adequate risk management systems in order to detect, deter and deal with trading activity that is indicative of market abuse, but also to the obligation to have in place appropriate and adequate risk management systems that enable a Member to comply with all of its obligations under the LME Rulebook.



51-52. Members should also have regard to the following non-exhaustive list of factors when considering their compliance with their obligations pursuant to Regulation 12.6(b) of Part 2 of the LME Rulebook:

- a. the extent to which the systems and controls (including but not limited to electronic surveillance system(s)) are appropriately calibrated considering and taking into account the nature, size and complexity of the business that a Member conducts on the LME market (whether such business is conducted by a Member, a Member's Clients, or the underlying clients of a Member's Clients). Members who choose to offer Direct Electronic Access ("DEA") to their Clients are reminded that they retain responsibility for the trading of those Clients<sup>9</sup>. Such Members should consider putting in place policies and procedures that consider the suitability of DEA Clients in order to ensure that DEA Clients comply with the LME Rulebook at all times;
- b. the extent to which the Member has suitable arrangements to identify suspicious trading activity and undertakes appropriate action when such activity is identified (such as, but not limited to, investigating such activity in a timely manner);
- c. the extent to which the Member has control over its surveillance activity and has appropriate oversight of any outsourced arrangements;
- d. the frequency with which assessments are performed into the adequacy of a Member's risk management systems and controls;
- e. the records that are maintained with regard to surveillance arrangements. This would include, without limitation, records of how systems, such as surveillance systems, are calibrated, and how decisions are made as to calibration amendments, as well as e.g. records of risk assessments undertaken;

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<sup>9</sup> Regulation 12.9, Part 3 of the LME Rulebook states that: "*LME Select Participants may offer order-routing facilities (also known as direct electronic access under MiFID II) to a Client, but in such cases the LME Select Participant retains responsibility for, and remains liable for, all trading activity conducted by such Client, including all orders submitted and trades executed using the order-routing facility.*"



- f. the policies, procedures and processes that are in place to detect, deter and deal with potential instances of market abuse, including the frequency with which these policies, procedures and processes are reviewed and updated where necessary and how they are communicated to relevant staff;
- g. the extent to which staff are appropriately qualified to detect, deter and deal with potential instances of market abuse;
- h. the extent to which arrangements for staff involved in surveillance activities (e.g. responsibilities, reporting lines etc.) are appropriate and ensure freedom from conflicts of interest;
- i. the extent to which staff receive appropriate and regular training regarding, amongst other things, activity constituting market abuse, and an understanding of the obligations of a Member under the EU Market Abuse Regulation;
- j. the extent to which senior management have appropriate oversight of the surveillance function, including but not limited to, undertaking quality assurance checks of the work performed by surveillance staff in relation to the detection of potential instances of market abuse, the availability of management information with regard to potential instances of market abuse, and documented escalation procedures; and
- k. the adequacy of pre-trade controls that are in place to assist in the prevention of disorderly trading on the LME.

## **ORDER STYLES**

[52-53](#). 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**



53-54. Client orders are not traded in the Ring, so an order using the term “in/on the Ring or during the Ring/kerb” will be executed on the basis of the prices traded/quoted in the Ring or during the particular Ring or kerb session. If a Client requires their order to be “shown” or traded across the Ring 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-to-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 concludes 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.

54-55. 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.

55-56. The timings for the acceptance of orders from a Client to a Member which are executed “on the close” of the relevant Ring/Kerb should be agreed between the two parties. The timings may be dependent on the nature of the order (for example large in size orders may have different timings from smaller orders). However, the instructions should be clearly understood so there is no doubt how and when the order may be executed by the Member. If an ‘*on the close*’ order is not placed in sufficient time before the close of the relevant Ring/Kerb, the Member may reserve the right to decline acceptance of any such order.

## **Market**

56-57. 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. Members should ensure they consider their best execution obligations as defined by prevailing regulations when executing an "at market" order on behalf of a Client.

### **Best**

[57-58.](#) "At best" orders may be executed on any of 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 filled the Client order. At any given time, the best price on LMEselect will be displayed on the system and by the market data 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. Members should ensure they consider their best execution obligations as defined by prevailing regulations when executing an at best order on behalf of a Client.

### **Close**

[58-59.](#) Most orders placed "on the close", or "market on close" ("MOC") are for either the close of the second Ring (i.e. the Official Price) or the final kerb (i.e. the Closing Price). Both of these prices are published. Closing prices for other sessions are harder to determine, although the LME does publish the Unofficial Closing Prices which are established at the close of the third 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.

### **Open**

[59-60.](#) 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

~~60-61.~~ 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.

~~61-62.~~ It is possible for a Client not to receive a fill on a resting order despite the order price trading in the market. This could be due to a number of circumstances such as order priority 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.

~~62-63.~~ 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 (known as “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

~~63-64.~~ It is possible for Clients to route orders to LMEselect, or to ask Members to place resting orders in LMEselect, on their behalf. LMEselect has multiple available order types and validity conditions, including but not limited to: GTC (for Cash and 3 month prompt dates only), “Good for day”, “Iceberg”<sup>10</sup>,

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<sup>10</sup> 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



[“Discretionary”<sup>14</sup>, “Scaling”<sup>12</sup> and “Fill or Kill” orders<sup>13</sup>. Further information on available order types, their characteristics and any restrictions on their use, is set out in the LMEselect User Guide, the current version of which is available on the LME website. Members are encouraged to read the LMEselect User Guide carefully to ensure compliance with any restrictions<sup>14</sup>.](#)

## SEGREGATION & PORTABILITY

### Segregation

[64.65.](#) When registering Agreed Trades in the Matching System, a Clearing Member must specify to 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 the trade has been executed for a Client) the registration must align the Contract to a specific omnibus (which may be net or gross for Direct Clients or net for Indirect Clients) or individually segregated account at LME Clear. Members are required to offer Clients a choice of accounts. The distinguishing factor between the two is: either (i) an omnibus account which has assets and positions allocated to it for multiple Clients, or multiple Clients with Indirect Clients; or (ii) an individually segregated account which has assets and positions allocated to it for a single Client, or a single Client with Indirect Client/s. Clearing Members, Clients and Indirect Clients

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only take affect with the next order quantity to be placed; the current open quantity seen by the market does not change.

~~<sup>14</sup> 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.~~

<sup>12</sup> 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.

<sup>13</sup> 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.

<sup>14</sup> [By way of example, whilst it is technologically possible for Members to submit discretionary orders in relation to LME Contracts, use of this order type \(whether submitted via the LMEselect trading GUI, for example, or via any third party software application that utilises native LMEselect functionality for the discretionary order type\) was prohibited by LME Notice 20/283. Similarly, Notice 20/283 also prohibits the use of native iceberg functionality in relation to Cash-Settled Futures Contracts.](#)



wishing to know more about segregation options may review LME Clear's EMIR Article 39(7) disclosure on the LME Clear website.

## **Portability**

~~65-66.~~ Where LME Clear has declared an Event of Default in relation to a Clearing Member and a Client wishes to transfer its positions from an account maintained with the defaulting Clearing Member to another Clearing Member, it must notify<sup>15</sup> LME Clear in accordance with the procedures set out by LME Clear from time to time. LME Clear will effect the transfer of positions and, where possible, assets subject to and in accordance with the LME Clear Rules<sup>16</sup>. Where the Client fails to submit its request in accordance with the LME Clear procedures or porting is not possible in accordance with the LME Clear Rules, the positions in the relevant account may be closed out by LME Clear and assets in the account used to offset any losses in the account. Members, Clients and Indirect Clients wishing to know more about default porting may review LME Clear's Article 39(7) disclosure on the LME Clear website.

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<sup>15</sup> It is not possible to accept such notifications from Indirect Clients, and the request must always be made by the Client.

<sup>16</sup> The LME Rules contain provisions to ensure that, where any Cleared Contract is ported in accordance with LME Clear Rules, the back-to-back Client Contracts shall also port.