





## APPENDIX

Revised April 2018

### **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 (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 Exchange'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>.

##### **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.
8. Certain Contracts (including Ferrous Futures and LMEprecious Contracts – see below) are not available for trading in the Ring.

### **Inter-office**

9. 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**

10. Category 1, 2, 3 and 4 Members and LMEprecious Members may be LMEselect Participants and enter into Contracts ('LME Contracts') on LMEselect.
11. 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.
12. 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.



13. 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 (subject to iceberg orders – see paragraph 57 below), 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.
14. 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 inputted into the Matching System, and that Client orders are not offset against each other (see also “Transacting on behalf of Clients” below).

### **Contract Formation & Clearing**

15. 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.
16. Cleared Contracts are cleared by the LME’s appointed clearing house, LME Clear. LME Clear clears LME 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 “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 all pre-execution checks have been satisfied.

17. 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 Contract<sup>1</sup>.
18. 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 & LMEprecious**

19. The LME offers contracts in base and ferrous metals (described in the Rules as “LME Base Contracts”) and precious metals (described in the 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.
20. 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:

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<sup>1</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.



- a. an Agreed Trade between two Clearing Members shall be allocated to each Clearing Member's house account at LME Clear;
  - 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.
21. This is sometimes referred to as a “T4” model. In cases (b) and (c) above, the trade must initially be entered into the house account, and then crossed out of the house account into the client account.
22. 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).
23. 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.



24. There are also different settlement mechanisms for different Contracts: most LME Base Contracts are physically deliverable (with the exception of certain Contracts, including Ferrous Futures, which are cash-settled), 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**

25. 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 (or the equivalent LMEprecious category<sup>2</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 a transaction.
26. 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 to its entry of a Client Contract that the broker 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 broker under the Client Contract.

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<sup>2</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.



27. 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 relevant Notices.

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

28. Instead of entering into Contracts governed by the LME Rules, Members and other third parties may enter into 'over-the-counter' (OTC) contracts in respect of LME deliverable metal. 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 cleared by, LME Clear, meaning that both parties to the contract could be exposed to losses if the either party defaults. Unlike LME Contracts, OTC contracts do not benefit from Part VII protection in the event of the default of the Member, which means that the general law of insolvency would apply on default rather than the LME 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 LME Contracts, and the different levels of protection afforded by each.
29. The LME applies a "Financial OTC Booking Fee Policy" to 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>3</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.
30. 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 settle Non-LME Platform Contracts or the Ex-Cleared functionality of

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<sup>3</sup> For further information, see <https://www.lme.com/Trading/New-initiatives/Financial-OTC-Booking-Fee>





LMEs would 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 Exchange; and (d) bringing onto the LME Non-LME Platform Contracts.

31. 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**

32. 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 market participants (i.e. as broker).

### **Dual Capacity**

33. The LME's market model operates such that liquidity in the dealer-to-dealer space may be different to that in the dealer-to-client space. This feature arises primarily due to the LME's daily date structure. For example, an industrial client may wish to hedge the average of the LME's cash price in respect of a quotation period between, for example, 6 January and 7 May. This is clearly a bespoke requirement, and it is unlikely that any central marketplace could provide liquid execution for such an order. Rather, the general approach on the LME market will be that a Member provides the contract to the Client, and executes related contracts in the market to lay-off some or all of the associated risk. However, the nature of the contracts traded by the Member with the Client, and the Member with the market, will be different. In this context, the Member is acting in so-called "dual capacity". This differs from so-called "agency execution", whereby the Member trades the same contract with the market as with the Client. It should be noted that some execution on the LME market (generally in respect of more liquid prompt dates) will be undertaken under an agency execution model.
34. 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', following the purchase/sale of metal in the LME market, or a combination of the two.

35. The validity and desirability of this market structure has been 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**

36. 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.
37. 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.
38. 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).
39. 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.
40. The LME further recognises that certain Client execution scenarios may be more complex. For example, a Member may execute a Client order on an agency model, 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.

41. Clearly, the broader rules of market conduct (arising from, among other places, 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).
42. 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 broker 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” or “crossing up”**

43. 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, 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 Member’s house orders executed by Members via 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**



44. 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. 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. Compliance with these obligations is (where applicable) the responsibility of the Member, and Members must seek their own advice in this regard. Of particular relevance in the context of Client business are the following broad obligations (but note this is not an exhaustive list and primarily focuses on UK and EU requirements):

**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 onto 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 the Execution Venue where the relevant trade is executed. It may also apply differently depending on whether, for example (i) a Client has requested a price from a Member and subsequently elects to trade on the basis of that price at a later time; or (ii) a Client directly instructs a Member to execute an order in the market at a specific price.

**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.



**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 of 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 should 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).

**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.

## **ORDER STYLES**

45. 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**

46. 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-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.

47. 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.
48. 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**

49. 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**

50. 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 any 'best execution' obligations (as defined by MiFID II and by the FCA) that may apply.

51. 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 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**

52. Most orders placed 'on the close' are for either the close of the second Ring (Official 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**

53. 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**



54. 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.
55. 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.
56. 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**

57. 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'<sup>4</sup>, 'Discretionary'<sup>5</sup>, 'Scaling'<sup>6</sup> and 'Fill or Kill' orders<sup>7</sup>.

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<sup>4</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 only take affect with the next order quantity to be placed, the current open quantity seen by the market does not change.





## SEGREGATION & PORTABILITY

### Segregation

58. 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” (which may be net or gross) 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 (ii) an “individually segregated” account which has assets and positions allocated to it for a single Client. Members and Clients wishing to know more about segregation options may review LME Clear’s EMIR Article 39(7) disclosure on the LME Clear website.

### Portability

59. 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. Members and 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>5</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>6</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>7</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.