



THE LONDON METAL EXCHANGE (LME) TRANSACTIONS

ORDER HANDLING GUIDELINES

Produced in association with Simmons and Simmons

Foreword

The Futures and Options Association (**FOA**) has produced this set of industry guidelines on order handling procedures to assist LME broker/dealers when dealing with professional clients in a dual capacity market and to assist in measuring and interpreting applicable regulatory obligations in respect of order handling and conflict management.

The FOA is particularly grateful to the international law firm, Simmons & Simmons, and to the FOA Metals Working Group, for their significant contribution to the finalisation of this text.

These guidelines do not alter the meaning of any relevant FSA Rule, nor should they be interpreted as doing so. The guidelines have not been formally reviewed by the FSA and cannot be relied upon as official industry guidelines.

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Futures and Options Association

1. **INTRODUCTION**

1.1 **Purpose**

These Guidelines are intended to enable LME Firms to clarify with clients certain aspects of the way in which LME Transactions may be undertaken between an LME Broker/Dealer (an **LME Firm**) and its clients, in particular how orders may be dealt with, and the way in which other LME business may be conducted by the LME Firm in the meantime.

The Guidelines build on information contained in the Guide to the Structure and Market Terminology of the LME issued by the LME on 22 February 2006 as LME notice 06/067 (the **LME Guide**). Extracts from the LME Guide are set out in the Guidelines, where appropriate, in order to provide the context. The Guidelines however are issued by the FOA, and not the LME, and have not been reviewed or approved by the LME.

The Guidelines are not intended to be prescriptive or mandatory and different practices or internal structures may be adopted by different LME Firms. LME Firms may choose to adopt them (or adopt them in modified form) as part of their contractual matrix, but there is no obligation on them to do so.

The Guidelines are intended to apply to dealings with respect to LME Transactions with clients who have been categorised as Professional Clients for the purposes of the FSA Rules (and not to dealings with Retail Clients). LME Firms may also choose to apply these Guidelines to business with Eligible Counterparties. Please note however that in the case of relevant business with Eligible Counterparties, certain references in these Guidelines to FSA Rules will not be applicable. For example, references in Section 2.4 and the extract to the LME Guide in Section 3.5 to the requirements of the FSA's Rules on best execution will not be relevant as the FSA's as these Rules do not apply in respect of Eligible Counterparty business. Similarly, the FSA Rules relating to aggregation and allocation referred to in Sections 2.8 and 6.7 will not be relevant as again these requirements do not apply in respect Eligible Counterparty business.

In these Guidelines, **LME Transactions** refer to contracts which are made on the LME or pursuant to the LME Rules, or which are subject to the LME Rules. This will include LME transactions which are back to back with LME Client Contracts with clients, but will not include, for example, "look-alikes" or contracts which for other reasons (for example their term to maturity) are not capable of constituting an LME Contract. The Guidelines are not intended to apply to LMEminis.

2. **BASIS OF DEALING**

This section sets out further information relating to the principles underlying the way in which an LME Firm may enter into LME Transactions with clients.

Text from LME Guide

Dual Capacity

LME members may act both in the capacity of market maker and broker. They may act in a particular manner depending on a number of circumstances, including the size of the order; the liquidity of the market at the time the order was placed, and, not least, the customer's instructions. Customer orders may be filled directly from a member's 'book' or following the purchase/sale of metal or plastic in the LME market. Furthermore, customer orders may be offset, amalgamated, broken-up or netted for execution. These methodologies apply equally to orders whether any resulting Exchange Contract is effected in the ring, in the inter-office market, or on LME Select.

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

2.1 **Dealing on quotes**

A feature of the LME is that LME Firms may choose to make markets by quoting to a client the price at which the LME Firm is prepared to deal with it on a request for quote (**RFQ**) basis. However, the LME Firm is under no obligation to provide the client with such a quote and accordingly the expression "market maker" when used in the context of the LME may have a different meaning to that used on other markets or in other contexts. If the LME Firm chooses to give a client a quote and the client has not specified whether it wants to buy or sell, then the LME Firm will normally provide a two-way quote. The relationship between the LME Firm and the LME client in this instance will be one of simple purchaser and seller.

2.2 **Orders**

If a client wishes to give specific instructions (for example, to execute its order in the market, or specifically in the LME ring or kerb or on LME Select or to act as its broker for the purposes of finding interested counterparties with whom to execute the order on a matched principal basis) it is important that these be made clear to the LME Firm and accepted by it. In the absence of agreement to the contrary, LME Firms may fill orders in any of the ways referred to in the LME Guide above, or indeed a combination.

2.3 **Right to refuse instructions**

Unless otherwise agreed by an LME Firm, an LME Firm may refuse to accept any order from a client. Where an LME Firm declines an order because it believes that it will be impracticable, difficult or disadvantageous to the client for it to fill the order in accordance with the client's instructions, the LME Firm may request or recommend that the client change the nature of the order so that the LME Firm may accept it. The LME Firm will however not be under any obligation to advise the client where it believes that the order submitted will be impracticable, difficult or disadvantageous to the client for it to fill.

2.4 **Execution Arrangements**

The approach of individual LME Firms to best execution for the purposes of the FSA Rules will be determined in accordance with that Firm's Order Execution Policy.

2.5 **Commissions and Charges**

The approach of individual LME Firms to commissions and any mark up or mark down that may be applied in respect of orders should be addressed separately by the relevant LME Firm. Where these Guidelines refer to fills or the basis

of pricing given to clients in respect of orders, this is subject to the application of such commission, or mark up or mark down.

2.6 Client Business and Own Account Trading

As well as addressing the handling of particular order types, these Guidelines also deal with the interaction between different types of client business, and set out certain circumstances in which LME Firms may carry on own account trading at the same time as undertaking client business. LME Firms shall be entitled to retain any income, profits or remuneration from such activities.

2.7 Averaging of execution prices

Where a client submits an order to an LME Firm and the LME Firm fills the order by going in to the market and executing more than one LME Transaction, the LME Firm may fill the client's entire order by reference to the weighted average of the prices of the LME Transactions that it has executed rather than by reference to the individual prices of those LME Transactions. In such circumstances, references in these Guidelines to the price at which the client's order will be filled shall be construed accordingly.

2.8 Aggregation

An LME Firm may aggregate a client's orders with those of its other clients or with transactions for its own account where the LME Firm considers it appropriate and fair to do so. Rules in the FSA Handbook provide that an LME Firm may only do this where it is unlikely that the aggregation of orders and transactions will work overall to the disadvantage of any client whose order is being aggregated. For example, an LME Firm might seek to aggregate orders in circumstances where there is rapid directional movement during a ring. However, the client should be aware that, on occasion, in relation to a particular order, aggregation may operate to the client's disadvantage. Where a client order is aggregated with one or more other orders and the order is partially executed, the related trades are required to be allocated in accordance with the LME Firm's order execution policy.

2.9 Going into the Market

Where these Guidelines refer to an LME Firm effecting transactions "in the market", or "going into the market", this includes not only effecting transactions in the ring or kerb, or in the inter-office market or on LME Select, but also effecting transactions on a matched principal basis with other clients or counterparties. These expressions also include effecting a transaction by crossing or off-setting one client order against another client order, and effecting a transaction using an intermediate broker.

3. **TYPES OF TRADE OR ORDER**

3.1 **Dealing on the basis of quotes**

Where an LME Firm acts as market maker as that term is understood on the LME, i.e. deals on the basis of quotes provided by it, any quote given will be the price at which the LME Firm is prepared to deal with the client from its own book. A quote will only be good at the time it is made and may in any event be withdrawn by the LME Firm or rejected by the client (including where the client makes a counter offer).

The price that an LME Firm quotes may differ from the prices bid or offered or traded in the market at the relevant time (including any prices bid or offered or traded by the LME Firm itself) and the LME Firm is under no obligation to match these prices.

3.2 **“Rings and kerbs only” instructions:**

LME Guide

Ring

Customer orders are not traded in the rings or kerbs, 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 customer 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 Exchange Contract for a customer order may not replicate its terms. As the customer is not a party to any Exchange Contracts i. e. those traded in open outcry between members in the ring/kerb sessions, in specifying ring/kerb, the customer 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 customer may place an order with the specific request that the member trades an Exchange Contract replicating its order in the ring. In such circumstance the RDM can only trade this order by open outcry in the ring.

If a customer trades at the prevailing market quote proffered in the ring/kerb, their executor is not necessarily obliged to effect an Exchange Contract at the same price. This can lead to situations where the customer has traded at the prevailing market quote, without that same price trading in open outcry across the floor of the Exchange. However, if the instructions from the customer 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.

Clients should ensure that “rings and kerbs and instructions are clearly identified as such. Any requirements clients may have as to the manner of execution should be clearly stated.

3.3 **“At market” orders**

LME Guide

Market

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 LME Select, and in the inter-office market. Traditionally, when open outcry trading is in session, the market is defined by activity within the ring/kerb. At other times, the market is split between inter-office trading and trading on LME Select. During inter-office sessions, indicative quotes are available on the MDS; firm prices are available on LME Select and the LME Select page on information vendors' systems. The indicative prices might not be available to all parties.

In addition to orders specifically identified by the client as “at market” orders, orders which do not specify a price or a pricing mechanism (an example of such pricing mechanism being “close second ring”) may also be treated by the LME Firm as “at market” orders.

Clients may also request that LME Firms refrain from executing an “at market” order until a particular time (e.g. if the client submits an order in the pre- market and gives the LME Firm a “rings and kerbs only” instruction).

If the LME Firm considers that it may be difficult or impossible or disadvantageous to the client to execute the order as an "at market" order, the LME Firm may refuse to accept the order as an ordinary "at market" order and may request or recommend that the client resubmits the order as an alternative order type (e.g. as an "at best" order) or tell the client that the order will or may need to be "worked". The LME Firm should endeavour to agree with the client at the time how it will deal with such alternative order.

Other than this, the LME Firm should endeavour to fill the client's "at market" order as soon as is reasonably practicable after it has accepted it.

Unless the LME Firm has agreed an alternative arrangement with the client, the prevailing market price should be what the LME Firm reasonably perceives is the prevailing bid (if the client is selling) or the prevailing offer (if the client is buying) available in the market for an order of that type and size at the time. On occasion, this price may differ from the prices bid or offered or traded in the relevant market at the relevant time and the LME Firm is under no obligation to match these prices.

3.4 “Limit” orders

“Limit” orders are orders to buy or sell the relevant lot size at a price stipulated by the client in the order, or better. When submitting a “limit” order, the client should also specify the time period to which the order relates.

If this is not specified, the order will be deemed to be "good for the day" (i.e. it will lapse at the end of the trading day in London).

“Limit” orders will be treated as “at market” orders where the prevailing price is at or better than the stipulated limit during the period of validity of the order. If the LME Firm perceives that the prevailing bid price (if the client is selling) has fallen below the limit specified by the client (or, (if the client is buying) risen above the specified limit), the LME Firm should refrain from executing any unexecuted part of the order until the prevailing price returns to the stipulated price or better.

3.5 "At best" orders

LME Guide

Best

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 customer's behalf. The extent of the discretion is fixed by the terms of the order. This type of order is distinct from 'best execution' as defined by the FSA.

Best orders may be executed both in rings/kerbs, inter-office and on LME Select. 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 customer receiving the 'best' price achieved during the session if the price improves after the member has booked the metal or plastic intended to fill the order. At any given time, the best price on LME Select will be displayed on the system and by the information vendors. Customers 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.

When submitting an "at best" order, the client should also specify a time period to which the order relates (which may be a ring or kerb session). If the client fails to specify a time period to which the "at best" order relates, the LME Firm will treat the relevant time period as the remainder of the day on which the LME Firm accepts the order.

When executing an "at best" order the LME Firm's obligation to you will be interpreted as an obligation to use reasonable care and skill to try to obtain what it perceives will be the best fill available for that type of contract and lot size during the relevant time period. However, the filling of orders in this way necessitates the exercise of discretion as to time, price and manner of execution and it should be understood that no guarantee can be given that clients will obtain the best prices actually traded in the market in the relevant time period either before or after the execution of the client's order.

It is entirely at an LME Firm's discretion whether or not to accept "at best" orders, either on specific instance, or generally.

If a client has specified a limit above or below which an "at best" order is not to be executed and, the LME Firm perceives during the relevant period that the prevailing bid price (if the client is selling) has fallen below the limit specified by the client (or (if the client is buying) risen above the specified limit), the LME Firm should refrain from executing any unexecuted part of the order until the prevailing price returns to the stipulated price or better.

3.6 "On the close" orders

LME Guide

Close

Most orders placed 'on the close' are for either the close of the second ring (official LME prices) or the final kerb (closing prices). Both these prices are demonstrable because of the publication of official and closing prices. 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, customers 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 LME Select is the last price traded before the system closes.

"On the close orders" specified by the client are filled by reference to the relevant official or unofficial close price. This may differ from the actual prices that were bid or offered or traded in the relevant ring, kerb or, as the case may be, LME Select session immediately prior to the close (including any prices bid or offered or traded by the LME Firm) and the LME Firm is under no obligation to match such prices.

When an LME Firm accepts an "on the close order", it is guaranteeing that the order will be filled at the relevant close price and is therefore "on risk" from the moment that it accepts the order. This means that such orders are filled directly from the LME Firm's own book. Consequently, the LME Firm will not be under any obligation to execute or show any of the client's "on the close" orders in the relevant ring or kerb or to trade them on LME Select.

Where an LME Firm is not able to guarantee the execution and refuses to accept it, the LME Firm may agree to accept an alternative type of order instead and will endeavour to agree with the client at the time how it will deal with such alternative order.

3.7 "Price level" orders

A "price level" order is a specific instruction that an order be executed at a specified price level (and, unlike "limit" orders, not at a specified price or better).

Where a "price level" order is given, the client should, when it submits the order, specify the validity of the 'price level' order (i.e. how long the client wants it to remain valid). If this is not specified, the order will be deemed to be "good for the day" (i.e. it will lapse at the end of the trading day in London), unless it is submitted by telephone during the course of a ring session in which case the order will be deemed to be good until the close of that ring.

An LME Firm which accepts a "price level" order is not guaranteeing to fill the order at that price, but rather is undertaking that it will seek to fill it at the stipulated price. As such the LME Firm is not obliged to offer improvements to clients, although may choose to do so.

An LME Firm shall only be obliged to fill the client's order when the LME Firm perceives that the agreed "trigger" point for executing the order has been reached or, in the absence of such agreement, when the price level of the client's order (or better) is actually traded in the market. The LME Firm may choose to fill (or partially fill) the order at an earlier time from its own book, provided that this would not conflict with any instruction given by the client.

If the LME Firm wishes to fill the client's order in whole or in part by going into the market, it will only be required to fill the order (or the relevant part of the order) where there is sufficient liquidity in the market to enable it to do so.

3.8 "On stop" orders

LME Guide

Resting Orders

When placing resting orders such as 'good 'til cancelled ('GTC', or any derivations thereof) or stop loss orders, customers 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.

It is possible for a customer 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 customer with a full explanation of why it was unable to fill the order.

Customers 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'). Customers should ensure the executor is fully aware of their requirements regarding the execution of an order, and adheres to any limitations, especially if the customer is not in contact with the market/member when the trigger point is reached.

It is possible for customers to ask members to place resting orders in LME Select. Where the broker has an order routing system into Select, customers will be able to place orders more directly. The system accepts GTC and Good for Day (DAY) orders. DAY orders are automatically deleted from the system at close of trading.

In order to give a valid "on stop" order, the client should specify the price (the "stop level") at which the order is to be triggered and its validity (i.e. how long the client wants it to remain valid). If the client fails to specify the validity of the order, the order will be treated as "good for the day" (i.e. it will lapse at the end of the trading day in London).

"On stop" orders will normally be treated as market orders once triggered (and the relevant price remains at or beyond the trigger level). However, an LME Firm may agree that it will guarantee to fill an order at the stop level once the order has been triggered, but this would need to be specifically agreed with the LME Firm. Where this is agreed, the LME Firm will be "at risk" from the moment it accepts the order. This means that such orders are filled directly from the LME Firm's own book.

4. **CLIENT ORDER PRIORITY – COMPARABLE ORDERS**

This section deals, broadly speaking, with client order priorities for orders which are comparable apart from the time of their submission/acceptance.

4.1 **Prior client orders - "price level", "at market", "limit", "on stop" or "at best" orders**

"Price level", "at market", "limit", (non guaranteed) "on stop" or "at best" orders of the same type and for the same underlying and prompt date in the same direction (i.e. buy or sell) will generally be dealt with sequentially, that is to say if such an order has become due for execution but has not yet been filled by the time that a subsequent comparable order has become due for execution, the prior order will be filled before the subsequent order. There may be circumstances where the characteristics of the order or prevailing market conditions make this impracticable, or the interests of the client require otherwise or the LME Firm considers it appropriate and fair to aggregate the orders. Certain instances of this are discussed below.

Orders may in any event not be dealt with sequentially where they are not received by the LME Firm by comparable media and it would not be practicable for them to be treated sequentially.

4.2 **Deferral**

In certain circumstances, an LME Firm may agree with clients that an order should be resubmitted as a different order type or that an order may need to be worked. This might, for example, occur where the LME Firm considers that it may be impracticable, difficult or disadvantageous to the client to execute an ordinary "at market" order. This is discussed in Section 3 (*Types of Trade or Order*).

4.3 **Competing "price level"/"limit" orders**

Where the LME Firm wishes to fill competing "price level" orders or "limit" orders which have become due for execution by going into the market, and seeks to fill the orders sequentially, changes in the prevailing price might on occasion mean that it is not possible to fill the subsequent order (in whole or in part). Where in these circumstances the LME Firm seeks to fill both the prior and subsequent order on an aggregated basis, this may on occasion result in neither order being fully filled, or the subsequent order not being filled (in whole or in part). See also Sections 2.8 (*Aggregation*) and 6.7 (*Aggregation and Allocation*).

4.4 **Competing "at best" orders**

In the case of competing "at best" orders (that is to say "at best" orders for the same underlying and prompt date and in the same direction (i.e. buy or sell)) where the time periods to which the orders relate are either identical or overlap) a prior client order will take precedence over subsequent orders while the time periods overlap. This may (depending upon the respective time periods to which the orders relate) result in the LME Firm executing the first order before it executes subsequent orders and/or executing the first order at a better price than that at which an LME Firm executes subsequent orders.

5. **INTERACTION BETWEEN DIFFERENT TYPES OF CLIENT BUSINESS**

This section deals, broadly speaking, with the interaction of different types of client business undertaken by an LME Firm in good faith in the ordinary course of its broker/dealer business. **Broker/dealer business** for these purposes means filling existing orders, or accepting and then filling new orders from other clients, or making markets as that term is understood on the LME, i.e. deals on the basis of quotes provided by it.

5.1 **Interaction between dealing on the basis of quotes and other orders**

Accepting “price level”, “at market”, “limit”, “on stop”, “at best” or other orders will not prevent an LME Firm from continuing to deal on the basis of quotes, or accepting and filling “on the close” or guaranteed stop orders from other clients, and vice versa. Accepting “on the close” orders will not prevent an LME Firm from continuing to undertake business/trade in the relevant ring, kerb or LME Select session to which “on the close” order relates.

5.2 **Other underlying/prompt dates**

An acceptance by an LME Firm of an order or entering into an LME Transaction with a client in relation to a particular underlying e.g. a specific type of metal and prompt date will not result in there being any restriction on the ability of the LME Firm subsequently to take orders or to enter into LME Transactions in relation to a different underlying and/or prompt date.

5.3 **Handling of other orders prior to orders being triggered**

“Price level” orders

Where an LME Firm accepts a “price level” order and that order has not yet been triggered, the LME Firm may continue to accept and fill “at market”, “limit”, “at best”, “on stop” or other similar orders, or other “price level” orders.

“On stop” orders not yet triggered

Where an LME Firm accepts a (non guaranteed) “on stop” order and that order has not yet been triggered, an LME Firm may continue to accept and then fill “price level”, “limit”, “at market”, “at best” or other similar orders, or other (non guaranteed) “on stop” orders. Once triggered and the relevant price remains at or beyond the relevant trigger level, the order will become an “at market” order and be treated accordingly.

“Limit” orders not yet triggered

Where an LME Firm accepts a “limit” order and that order has not yet been triggered, the LME Firm may continue to accept and fill “price level”, “at market”, “at best”, “on stop” or similar orders, or other limit orders. Once triggered, and for so long as they remain within the stipulated limits, “limit” orders will be treated as “at market” orders.

5.4 **“Market” orders for future execution**

Where an LME Firm has accepted what would otherwise be an “at market” order from a client, but subject to an instruction to defer execution of the order until a particular time, the LME Firm may continue to accept and then fill “price level”, “limit”, “on stop”, “at best” or other similar orders from the LME Firm’s other clients and “at market” orders for immediate execution from the LME Firm’s other clients.

5.5 **Market orders that need to be worked**

Where the nature or size of an “at market” order from a client is such that an LME Firm has refused to accept it as an ordinary “at market” order (on the basis that it might be impracticable, difficult or disadvantageous to the client to execute the order immediately or in a single attempt) and has, instead, agreed with the client that it will accept the order as an order that may need to be “worked”) the LME Firm may in the meantime continue to accept and then fill “price level”, “limit” and “on stop” orders from its other clients and “at market” orders for immediate execution from its other clients, including by going into the market, where the LME Firm reasonably considers it fair and appropriate to do so in the circumstances.

Circumstances in which it may be appropriate to fill such other orders before the LME Firm fills the order being worked may include where the LME Firm reasonably considers that the execution of such other orders is unlikely to affect disadvantageously the price at which the LME Firm can execute the first order or where it has specifically drawn to the client's attention at the time that it accepts the order that needs to be worked that it may continue to accept and then fill such orders and it would be impracticable for it to cease to do so and the client has not objected to this.

5.6 "At best" orders

Where an LME Firm has accepted an "at best" order, it may continue to accept and fill "price level", "at market", "limit", "on stop" and other similar orders from the LME Firm's other clients. This includes filling orders by going into the market. However, in such situations the LME Firm must be able to continue to fulfil the obligations it has assumed in relation to "at best" orders described above, that is to say, to use to use reasonable care and skill to try to obtain what it perceives will be the best fill available for that type of contract and lot size during the relevant time period.

5.7 LME Lending Guidelines - Brokers instructed by Dominant Clients

The LME has issued Lending Guidelines (LME Lending Guidelines – Brokers instructed by Dominant Clients) which impose certain requirements and may impact on the way transactions are dealt with. For example, an LME Firm which receives an order from a client to lend in accordance with the Lending Guidance may already have orders from other clients to borrow. In these circumstances, the member is required to keep in mind amongst other things the responsibility of the dominant position holder to respond to bids on LME Select or in the ring. If the LME Firm receives an order from a client to lend in accordance with the Lending Guidance and already has a bid on LME Select that represents a client wishing to borrow, according to the LME Lending Guidelines, the LME Firm should cancel that bid on Select before crossing the borrowing client's order with the dominant client's lending order. Further information relating to the LME Lending Guidelines may be found on the LME website.

6. **INTERACTION BETWEEN CLIENT BUSINESS AND OWN ACCOUNT TRADING**

This section deals, broadly speaking, with an LME Firm's ability to undertake own account trading in good faith at the same time as dealing with client business as described in Section 5. **Own Account Trading** for the purposes of these Guidelines refers to where an LME Firm trades on its own account to manage positions arising from its activities of dealing on the basis of quotes or from filling client's positions from its own book and also includes pure proprietary trading. It does not, however, include LME Transactions entered into with other clients (either in the case of dealing on the basis of quotes or to fill orders from those clients), nor does it include entering into back to back trades to fill a client's order (such activities being part of its broker/dealer business).

6.1 **No Trading Ahead**

An LME Firm should not trade for its own account on the basis of and ahead of an "at market", "limit", "price level", "on stop" or "at best" order accepted from a client in order to take advantage of the anticipated effect that the subsequent execution of a client order is expected to have on the market (front running).

6.2 **Dealing on the basis of quotes**

An LME Firm entering into an LME Transaction with a client on the basis of its quote (thus taking position risk onto the LME Firm's own book) may at the same time trade on its own account.

6.3 **"On the close" orders and "on stop" orders where stop level guaranteed**

When an LME Firm accepts "on the close" order or "on stop" order from a client and guarantees the close price or stop level, the LME Firm may continue to trade for its own account. This includes where the order is an "on the close" order, trading in the relevant ring, kerb or LME Select session to which the client's "on the close" order relates.

6.4 **Previous decisions to deal**

Where an LME Firm (or one of its affiliates) has already made a decision to trade for its own account before receiving a client order relating to an LME Transaction in the same underlying and prompt date and in the same direction as a client's order, the LME Firm may execute that transaction (or that of its affiliate) before executing the client's transaction.

6.5 **Reducing Exposure**

An LME Firm may trade on its own account for the purposes of reducing its exposure to anticipated changes in the market price where such exposure arises from the Firm's own account positions that result from its legitimate business of acting as dealing on the basis of quotes (or from filling client orders from its own book) in the ordinary course of its broker/dealer business in circumstances where either such own account trading is unlikely to have an impact on price or the LME Firm has drawn to the client's attention when it accepts the client's order that it intends to do so and the client has not objected.

6.6 **Interaction between own account trading and orders where there may be a deferral element ("at market" orders that need to be worked, "limit", "price level", "on stop" or "at best" orders).**

An LME Firm may enter into own account transactions ahead of these orders where this is part of the legitimate business of market makers/dealers, or the dutiful execution of client orders and is reasonably considered by the LME Firm fair to do so in the circumstances. In any event, to repeat the general point made in Section 6.1 (*No Trading Ahead*), this must not be done in order to take advantage of the anticipated impact of the order, and it is presupposed in the examples below that this will be the case.

Examples:

"At best" orders

In the case of "at best" orders, an LME Firm may continue to trade for its own account notwithstanding having accepted an "at best" order provided it is able to continue to fulfil its obligations to use to use

reasonable care and skill to try to obtain what it perceives will be the best fill available for that type of contract and lot size during the relevant time period. An example of this may be where the "at best order" specifies a subsequent period for execution. In other circumstances, the LME Firm should in particular be mindful of the impact of such trading on the interests of the relevant clients in determining to trade on own account in such circumstances.

"Rings and kerbs only" instructions

Where an LME has accepted a rings/kerbs only order in advance of the relevant ring or kerb session the LME Firm may continue to trade for its own account prior to the commencement of the relevant ring or kerb session.

"Price level", "on stop" and "limit" orders not yet triggered

Where an LME Firm has accepted an "on stop", "price level" or "limit" order, it may, prior to such orders being triggered, trade for its own account. Again, the LME Firm should be mindful of the impact of such trading on the interests of the relevant clients in determining to trade on own account in such circumstances, particularly in the case of "on stop" orders. In any event, unless the decision to trade had already been taken before accepting the order, the LME Firm should not, once the order has been triggered trade for its own account by going into the market in respect of the same underlying and prompt date and in the same direction (i.e. buy or sell) and at the same "price level" (or, as the case may be, "stop level") as the client's order (or a more advantageous price) until the LME Firm has filled the client's order (which, the LME Firm may still do from its own book).

Market orders that need to be "worked"

Where an LME Firm accepts what would otherwise be an "at market" order from a client that needs to be "worked", the LME Firm may continue to trade for its own account by going into the market for what the LME Firm provided the LME Firm has specifically and expressly drawn to the client's attention beforehand and the client has not objected. Again, the LME Firm should in particular be mindful of the impact of such trading on the interests of the relevant clients in determining to trade on own account in such circumstances. Without limiting the LME Firm's ability to refuse an order or instruction for any other reason, if the client does object to the LME Firm's being able to continue to trade for its own account following its receipt of the order, the LME Firm may refuse to accept the order.

6.7 **Aggregation and Allocation**

For the circumstances in which an LME Firm may aggregate a client's orders with those of its other clients or with transactions for its own account, see Section 2.8 (*Aggregation*) above. Rules in the FSA Handbook provide that where an LME Firm aggregates a client order with a transaction for own account and the aggregated order is partially executed, the LME Firm will normally be required to allocate the related trades to the client in priority to the LME Firm. However, if the LME Firm is able to demonstrate on reasonable grounds that without the combination it would not have been able to carry out the order on such advantageous terms, or at all, it may allocate the transaction for own account proportionally, in accordance with its order allocation policy.

7. **INFORMATION**

7.1 **Use and disclosure of information relating to the client**

An LME Firm may from time to time wish to discuss generic market information with a client or with the LME Firm's other clients, including generic information about market sentiment. To the extent permitted by law and applicable regulations, this may take into account client business, although LME Firms should not disclose precise or specific information relating to a client's identity or orders or transactions.

7.2 **Disclosure of information in order to broker a client's orders**

Where an LME Firm fills a client's order by going into the market it shall be entitled to disclose information about the volume and direction of the relevant order to a prospective counterparty, for the purpose of filling, or attempting to fill the order. The LME Firm should not, however, without the client's prior consent, disclose any specific information about its identity to such other person. Recipients of such information should understand that the information should only be used in connection with the negotiation or facilitation of the relevant transaction with the client and not for any other purpose.

7.3 **Disclosure of orders "in front"**

When an LME Firm intends to execute a client order which it has already accepted in priority to an order subsequently received from another client, the LME Firm may disclose in general terms to that other client when the LME Firm accepts its order that it has other orders which it intends to execute in priority to that other client's order.

7.4 **Formulating quotes**

When an LME Firm makes markets by quoting to clients prices at which it is prepared to trade, the LME Firm may take into account any information that the LME Firm holds about client orders and/or LME Transaction undertaken with clients in formulating such prices.

7.5 **Refusal of instructions**

If an LME Firm refuses to accept an order, this will not affect its ability to undertake ongoing broker-dealer business or trade on own account in the same manner as it would have done had the client not submitted the order.