

Order Execution Policy

Introduction

The Order Execution Policy (the "**Policy**"), which may be referred to as the Order Execution Policy, explains how CCBIUK ("**CCBIUK**" or the "**Company**") executes client orders and, more specifically, how CCBIUK obtains best execution for its clients (the **Best Execution Requirements**). CCBIUK is committed to providing a high quality and consistent execution service across all markets, clients and financial instruments in which CCBIUK operates.

This document is provided to clients in accordance with CCBIUK's regulatory responsibilities under the FCA Handbook, MiFID II and MiFIR.

Please note that capitalised terms that are not defined in the body of the text are defined in Schedule 1.

To provide additional policy we have included at the end of this Policy, in Schedule 2, the full extract of the document published by the LME in 2022 'A guide to the Structure, Market Terminology and Order Execution of the London Metal Exchange'

Scope

- This policy applies to orders received by Professional Clients.
 - CCBIUK does not provide services to Retail Clients and we are under no obligation to comply with Best Execution Requirements in relation to Eligible Counterparties.
 - When providing services to Eligible Counterparties, CCBIUK ensures that it acts 'honestly, fairly and professionally and communicates in a way that is fair, clear and not misleading, taking into account the nature of the eligible counterparty and of its business' (MiFID II Article 30(1)).
- The Best Execution Requirements apply where we receive an order from a client in relation to Financial Instruments: (i) for execution on the client's behalf; or (ii) for whom we receive and transmit order to other entities for execution.
- In circumstances where we execute orders but do not do so 'on the client's behalf', we will not owe the client best execution. This will include situations where we provide a quote to a client (discussed below in Question 7) as well as other situations where we act as principal on our own account and where the client does not legitimately rely on us to protect its interests.
- The Best Execution Requirements will not apply where a client executes an order itself, including by way of direct market access provided or intermediated through us.

11.3 Questions and answers

Question 1: What is "best execution"?

Best execution is a term used to describe our regulatory obligation to take all sufficient steps to obtain, when executing orders, the best possible result for our clients taking into account, amongst other things, the Execution Factors and Best Execution Criteria that are discussed below in Question 2 and Question 3 respectively.

Question 2: What are the Execution Factors and what is the relative importance of these factors?

The Execution Factors are: price; costs; speed; likelihood of execution and settlement; size; nature; or any other consideration relevant to the execution of the order.

The relative importance of these factors is to be determined in accordance with the Best Execution Criteria (see Question 3 below). Generally therefore, CCBIUK places the highest importance on price as the key execution factor, particularly where an order is of reasonable size in relation to the market and there is good liquidity. In some circumstances, other execution factors will be more important than price in delivering the best result when choosing executing venues. For example, in a rapidly changing trading environment, or during times of severe market disruption, speed of execution and / or fast and reliable matching of client orders might be more important than price.

Question 3: What is meant by Best Execution Criteria?

The Best Execution Criteria are the relevant characteristics in relation to: (i) the particular client, including the categorisation; (ii) the order; (iii) the financial instrument(s) involved in the order; and (iv) the relevant execution venue to which that order can be directed.

Question 4: What execution venues does CCBIUK utilise?

Where a client gives 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 the order.

Where we are providing a quote and dealing on an OTC basis, CCBIUK is the execution venue.

Our choice of execution venue is constrained by the fact that there may only be one market or platform where an order can be executed. If a client asks us to transact in an LME registered contract these can only be effected through the LME. The LME provides member firms three alternatives for order execution. The Ring, the interoffice market and LMEselect (see Schedule 2 for further details of each). Alternatively, we may be able to cross orders between CCBIUK clients.

Question 5: Can a client still give specific instructions to CCBIUK? If so, how does this affect the way CCBIUK treats client orders?

Yes, where a specific instruction is received from a client, CCBIUK will execute the relevant part or aspect of the order in accordance with that specific instruction. The most common example of this is when a client places an order with the instructions to execute it at the 'LME Official Settlement Price' or the 'LME Closing Price'. CCBIUK will continue to adhere to its best execution obligations in respect of any other parts or aspects of the client order that are not covered by such instructions. Generally, any information beyond the details of the product, volume and whether to buy or sell will be treated as a specific instruction. For example, CCBIUK treats client requests for an LME registered contract as a specific instruction in relation to choosing the execution venue.

Question 6: How does CCBIUK ensure that orders are dealt with in accordance with this policy?

CCBIUK monitors the performance of execution venues to ensure that they are consistently providing best execution in accordance with the arrangements. Where deficiencies are identified, CCBIUK makes changes to the arrangements and will disclose any such changes to the client.

Upon request from a client, CCBIUK will provide a written explanation of how a particular trade adhered to the Best Execution Requirements.

Question 7: What happens if CCBIUK is requested to provide a quote on a principal basis?

Best execution will generally not apply as the client is not legitimately relying on CCBIUK for best execution. This is because of a fourfold cumulative test:-

- in requesting our quote, the client is initiating the transaction;
- such clients will usually have multiple broker relationships and access to real-time data and will have made their own determination as to whether it is necessary for them to 'shop around';
- the market price is sufficiently transparent; and
- we have provided, through this policy and the client agreement, sufficient information about the basis upon which we will treat requests for quotes in terms of best execution.

Question 8: If CCBIUK aggregate my order with other orders will I receive best execution?

As detailed in the Professional Client Agreement, at clause 5.9, we may combine a client's order with our own orders and orders of other clients. By combining a client's order with those of other clients, we must reasonably believe that this is in the overall best interests of our clients. However, aggregation may result in a client obtaining a less favourable price in relation to a particular order. Outside a request for an order

to be placed in one of the LME floor, Ring, or kerb sessions, it is not our normal practice to aggregate any client orders.

Question 9: If CCBIUK aggregate my order how does it get allocated?

Where orders are aggregated but only part filled, allocation will be determined on the basis of the order receipt time. The order received first would be allocated first, then the second order and so on. Order allocation is not undertaken on a pro rata basis. Where client orders are aggregated with those of the firm and the aggregated order is only partially filled, the same allocation procedure, based on time of order received, will be applied. CCBIUK, as it is required to do, maintains a record of when its own orders (or decision to trade) are made, that can be used as a documented audit trail to ensure the correct application of this order allocation procedure. Where CCBIUK and the client place orders simultaneously, the client order will be filled in priority over the firm's order.

Question 10: What happens if CCBIUK receives multiple comparable orders?

When comparable orders are received by CCBIUK, they are carried out sequentially, and in a timely manner unless the market conditions prevailing preclude this. Orders are executed in order of receipt regardless of the media via which they were received.

Question 11: Can CCBIUK charge both sides of the transaction?

CCBIUK can only charge both sides of the transaction, if the trades do not fall under a category of PFOF.

Question 12: How are trades confirmed in a PTT scenario?

The client will be informed that the price is indicative and agree to start the auction process. When operations input the agreed trade into the matching system, the trade half is automatically selected to the auction process is in scope. It is also important to note that this does not affect the likelihood of trade being matched unless cancelled before the auction is completed. The trade can be fully confirmed once the auction process has completed and the trade is matched.

Question 13: With respect to the client experience what are the main differences between best execution under MiFID compared to MiFID II?

Under MiFID II, investment firms are required to take all sufficient steps to obtain, when executing orders the best possible result for clients. Under MiFID I, firms were required to take all 'reasonable steps'. 'Sufficient steps' is a higher bar than 'reasonable steps'. While this should not be interpreted to mean that a firm must obtain the best possible result for its clients on every single occasion, it means that firms have to ensure the intended outcomes can be successfully achieved on an ongoing basis. This involves strengthening

front office accountability; strengthening of systems and controls regarding detection capabilities; monitoring both the execution quality and the quality of execution arrangements and policies; structuring reporting channels to ensure that the results of ongoing executive monitoring are escalated to individuals who form the senior management of CCBI and / or relevant committees and are fed back into the execution policies and arrangements to drive improvements.

There is no longer a requirement for trading venues, e.g. the LME, to publicly make available, without any charges, information relating to the quality of execution of transactions on that venue. Additionally investment firms, e.g. CCBIUK, are no longer required to publish information centred on their use of execution venues.

Question 14: How often does CCBIUK review this policy?

CCBIUK reviews this policy periodically (at least annually) or whenever a material change occurs to ensure compliance with changes to applicable regulations and, where appropriate, implement any enhancements.

Question 15: Is this policy an agreement between a client and CCBIUK?

No. CCBIUK is required to provide appropriate information to clients about its order execution arrangements such that they can make a properly informed decision about our services. CCBIUK has provided the client with such information for that purpose and deems each client to be consenting to the policy each time the client places an order.

Question 16: What should I do if I have questions about this Policy?

Questions about this policy should be directed to your front office contact in the first instance or by email to ccbiuk_compliance@ccbintl.com.

Schedule 1 -Defined Terms

"**Eligible Counterparty**" has the meaning given to it in the FCA Handbook:
<https://www.handbook.fca.org.uk/handbook/glossary/G1973.html>.

"**FCA**" means the Financial Conduct Authority.

"**FCA Handbook**" means the Financial Conduct Authority's Handbook of rules and guidance:
<https://www.handbook.fca.org.uk/>.

"**Financial Instruments**" means those instruments listed in Annex I, Section C of MIFID II.

"**LME**" means the London Metal Exchange Limited.

"**MiFID II**" means the Markets in Financial Instruments Directive (No. 2014/65/EU).

"**MiFIR**" means the Markets in Financial Instruments Regulation (MiFIR) (Regulation (EU) No. 600/2014).

"**MTF**" means multilateral trading facility and has the meaning given to it in the FCA Handbook:
<https://www.handbook.fca.org.uk/handbook/glossary/G2354.html>.

"**Professional Client**" has the meaning given to it in the FCA Handbook:
<https://www.handbook.fca.org.uk/handbook/glossary/G1979.html>.

"**Regulated Market**" has the meaning given to it in the FCA Handbook:
<https://www.handbook.fca.org.uk/handbook/glossary/G978.html>.

"**Retail Client**" has the meaning given to it in the FCA Handbook:
<https://www.handbook.fca.org.uk/handbook/glossary/G1980.html>.

Schedule 2

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 2 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 Contracts¹ 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 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

12. Category 1, 2, 3 and 4 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.

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.

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 62 below), and the price and volume of each trade.

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 1 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 and Alumina. 3 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).

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

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.

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 preexecution 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.)

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 Contract². 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 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).

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

21. The LME offers contracts in base and ferrous metals (described in the LME Rules as "LME Base Contracts"). The LME has seven different categories of membership for the LME Base Service.

22. 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;

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.

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.

24. 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.

25. 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. A list of Members is on the LME website: www.lme.com. A principal relationship does not mean that Members do not take on quasi-fiduciary responsibilities when they execute trades for Clients. In particular, if a Member undertakes to deliver a particular service, for example, 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.

26. 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.

27. Open position statements issued to Clients or Indirect Clients³ 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 clients⁴ should not state that the contracts are 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

28. 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 3 An "Indirect Client" of a Clearing Member pursuant to the LME Rules may include a Client of a Category 4 Member. 4 Such Clients being indirect clients of the Category 1, 2 or 4 Member but not "Indirect Clients" pursuant to the LME Rulebook. 6 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.

29. 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 fees⁵. 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 ExCleared 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.

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 posttrade 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 other market participants (i.e. as broker).

Dual Capacity

33. 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 5 For further information, see <https://www.lme.com/Trading/New-initiatives/Financial-OTC-BookingFee>. 7 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.

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", or following the purchase/sale of Contracts in the LME market, or a combination of the two.

35. 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

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 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. 8

41. Clearly, the broader rules of market conduct (arising from, without limitation, the European Market Abuse Regulation, as onshored into UK law pursuant to the European Union (Withdrawal) Act 2018 following Brexit, and as amended from time to time) 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 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

43. 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

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 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.

45. 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. 9

46. 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.

47. 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".. PFOF is described as occurring when an investment firm (typically a 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

48. 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 abuse⁷. 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.

49. 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.

50. 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 7 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. 11 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 Clients⁸. 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;

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

51. 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

52. 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.

53. 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.

54. 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

55. 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

56. "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

57. 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

58. 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

59. 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 14 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.

60. 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.

61. 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

62. 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"9, "Scaling" 10 and "Fill or Kill" orders11. 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 restrictions12.

SEGREGATION & PORTABILITY**Segregation**

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

Portability

64. 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 notify¹³ 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. 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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