

COMMODITY FUTURES TRADING COMMISSION

FORM FBOT

**FOREIGN BOARD OF TRADE APPLICATION FOR REGISTRATION (IN
ORDER TO PERMIT DIRECT ACCESS TO MEMBERS AND OTHER
PARTICIPANTS)**

THE LONDON METAL EXCHANGE LIMITED

56 LEADENHALL STREET, LONDON, EC3A 2DX

- If this Form FBOT is a new application for registration, complete in full and check here.
- If this Form FBOT is an amendment to a pending application or to a final application that resulted in the issuance of an Order of Registration, list and/or describe all items that are amended or otherwise updated and check here.
When appropriate, please attach additional page(s) containing a list and explanatory statement of amendment(s) or update(s).

GENERAL INFORMATION

1. Name under which the business of the foreign board of trade will be conducted, if different than name specified above:

THE LONDON METAL EXCHANGE

2. List of principal office(s) where foreign board of trade activities are/will be conducted (please use multiple entries, when applicable):

Office (name and/or location):	London, United Kingdom
Address:	56 Leadenhall Street, London, EC3A 2DX, United Kingdom
Phone Number:	+44 (0) 20 7264 5555
Fax Number:	+44 (0) 20 7680 0505
Website Address:	www.lme.com

3. Contact Information.

3a. Primary Contact for Form FBOT (i.e., the person authorized to receive Commission correspondence in connection with this Form FBOT and to whom questions regarding the submission should be directed):

Name: James Samuel Muse
Title: Legal Counsel & Deputy Head of Enforcement
Email Address: james.muse@lme.com
Mailing Address: 56 Leadenhall Street, London, EC3A 2DX, United Kingdom
Phone Number: +44 (0) 20 7264 5510
Fax Number: +44 (0) 20 7680 0505

3b. If different than above, primary contact at the foreign board of trade that is authorized to receive all forms of Commission correspondence:

Name: Diarmuid Connor O'Hegarty
Title: Deputy Chief Executive
Email Address: diarmuid.ohegarty@lme.com
Mailing Address: 56 Leadenhall Street, London, EC3A 2DX, United Kingdom
Phone Number: +44 (0) 20 7264 5671
Fax Number: +44 (0) 20 7680 0505

BUSINESS ORGANIZATION

Describe organizational history, including date and, if applicable, location of filing of original organizational documentation, and describe all substantial amendments or changes thereto. For example:

The London Metal Exchange Limited is a limited liability company, having received its certificate of incorporation from the companies registrar for England and Wales (known as Companies House) on 6 May 1987. A copy of this certificate is set out at tab 1.

SIGNATURES

By signing and submitting this Form FBOT, the applicant agrees to and consents that the notice of any proceeding before the Commission in connection with the foreign board of trade's application for registration or registration with the Commission may be given by sending such notice by certified mail or similar secured correspondence to the persons specified in sections 3a and 3b above.

The London Metal Exchange Limited has duly caused this Form FBOT to be signed on its behalf by the undersigned, hereunto duly authorized, this 14 day of August 2012. The London Metal Exchange Limited and the undersigned represent that all information and representations contained herein are true, current, and complete. It is understood that all information, documentation, and exhibits are considered integral parts of this Form FBOT. The submission of any amendment to Form FBOT represents that all items and exhibits not so amended remain true, current, and complete as previously filed.

A handwritten signature in black ink, consisting of a large capital letter 'M' followed by a complex, cursive signature that appears to be 'Alford'.

Signature of Chief Executive Officer (or functional equivalent), on behalf of the Foreign Board of Trade

Chief Executive

Title

The London Metal Exchange Limited

Name of Foreign Board of Trade

EXHIBIT A – GENERAL INFORMATION AND DOCUMENTATION

Exhibit A-1

A description of the following for the foreign board of trade: Location, history, size, ownership and corporate structure, governance and committee structure, current or anticipated presence of offices or staff in the United States, and anticipated volume of business emanating from members and other participants that will be provided direct access to the foreign board of trade's trading system.

LME Submission: Exhibit A-1

Introduction

1 The London Metal Exchange (“LME”) is the world's premier base metals market. It operates futures and options markets in eleven industrial base metals. Eight of these, primary aluminium, copper, zinc, lead, nickel, tin, North American Special Aluminium Alloy Contract (“NASAAC”) and aluminium alloy, are mature markets where the daily LME official prices have become the accepted reference prices for the world trade in those metals. The LME launched steel billet futures contracts in 2008 and cobalt futures and molybdenum futures contracts in 2010. These newer contracts have not yet matured into the accepted reference prices for their industries but the steel billet futures contract is approaching that stage.

2 Base metals are amongst the few commodities that lend themselves to a globally traded reference price and it is for this reason that the LME has become the world centre for the trading of that price risk. Base metals lend themselves to global reference prices more so than other commodities because the relative cost of shipping metal around the world is low compared to the value of the metal. This low relative cost of shipping limits the size of regional variations. The LME provides a global reference price because LME listed warehouses are in the three regions of Europe, Asia and North America.

3 Copper and tin have been traded on the LME since 1877. Lead was introduced in 1903, zinc in 1915, primary aluminium in 1978 and nickel in 1979. The two grades of aluminium alloy are recycled primary aluminium and were introduced as contracts in 1992 and 2002.

4 All LME metals have different characteristics but the price discovery process for each of them is the same. The LME listed delivery locations in Europe, Asia and North America are in areas of net consumption or transshipment ports that are conduits to areas of net consumption. LME listed brands represent a significant proportion of the physically traded metal. For example, LME listed grade A copper brands represented 60% of world production capacity for grade A cathodes in 2010.

5 The LME provides three main functions: (i) a price discovery mechanism for these metals; (ii) a price-hedging mechanism for producers and consumers of metals traded on the LME; and (iii) a source of last resort for the physical delivery of these metals.

6 The LME is an on-exchange forwards market. LME contracts are based on physical settlement by the transfer of ownership of metal stored in listed warehouses; this guarantees price convergence as the far futures settlement dates converge on the cash settlement date (*i.e.*, two days forward). The ability to make or take delivery of metal against an LME futures contract on the settlement date prevents any divergence between the LME settlement price and the physical metal price.

7 Settlement of LME futures contracts is first by offset and then by delivery of the balancing position by means of LME warrants. This takes place on the settlement date so that ownership of metal changes hands on the day; there is no settlement

window. Offset allows those who trade on the LME to reduce the number of LME warrants necessary to settle their obligations on a settlement day to the net exposure. For example a producer who hedges his risk to a drop in metal prices will sell for delivery on a future date on the LME. He will close out his hedge by buying back an equal amount of metal for delivery on the same date on the LME. The metal delivery obligations will offset exactly and result in no LME warrants changing hands but the price differences will produce a net cash payment on that date.

8 An LME warrant is a bearer warehouse receipt that represents the ownership of a specific number of tonnes of an identified producer brand, stored in an identified shed operated by an LME approved warehouse company. The LME devotes a great deal of effort to maintaining the metal brand listing and warehouse approval systems because the reliability of metal stored in LME approved warehouses underpins the integrity of trading and price discovery.

9 Trading on the LME can take place in one of three venues: by way of open outcry, inter-office and via the electronic trading platform.

(a) Open outcry: The ring is the name given to the LME trading floor and is situated in London. Ring trading is conducted by open outcry during morning and afternoon sessions.

(b) Inter-office market: Inter-office trading comprises the bi-lateral trading of LME contracts, usually by telephone. Unlike ring trading, it can take place 24 hours a day. Whereas only Exchange Contracts are traded in the ring, both Exchange and Client Contracts are traded inter-office (the terms Exchange Contracts and Client Contracts are explained at paragraphs 17 to 19 of this Exhibit A-1). Like ring trading, inter-office trading takes place on a quote driven basis, with dealers providing bids and offers over the phone.

(c) LMEselect: Category 1 and category 2 members (see Exhibit B-1 below for an explanation of the categories of LME members) who have specific permission from the LME may trade Exchange Contracts via the LME's electronic trading system, LMEselect. It is because certain of the LME's members trade via LMEselect through their subsidiaries or agent branches situated in the United States that the LME is submitting Form FBOT to the CFTC.

Products traded on the LME

10 The LME offers trading in futures contracts in the eleven metals listed in paragraph 1 above. In addition, the LME offers (i) traded options contracts which give the right to buy or sell the underlying futures contracts for primary aluminium, copper, zinc, lead, nickel, tin, NASAAC, aluminium alloy and the LMEX (see (iii) below), (ii) contracts known as Traded Average Price Options which provide a hedging tool for participants in the metals industry that prices contracts on the basis of a monthly average price, (iii) a contract known as the LMEX which is an index contract based on a basket of metals¹, (iv) mini-contracts in primary aluminium,

¹ The LMEX has not traded for a number of years but remains available to trade.

copper and zinc and (v) contracts known as LMEswaps which are monthly average price futures contracts and are available for primary aluminium, aluminium alloy, copper, zinc, lead, nickel, NASAAC and tin.

11 Futures contracts are contracts for delivery on a specified date (“prompt date”) of a prescribed quantity of metal, the specification for which is in accordance with the LME’s special contract rules (covering quality of material, its shape and weight, the size of each lot and the currency in which the price is quoted). The lot size for primary aluminium, copper, zinc and lead is 25 tonnes; for aluminum alloy and NASAAC is 20 tonnes; for nickel is 6 tonnes; for tin is 5 tonnes; for steel billet is 65 tonnes; for cobalt is 1 tonne; and for molybdenum is 6 tonnes. Futures contracts for metals are deliverable for all London business days out to 3 months (i.e., daily settlement). Other prompt dates at less frequent intervals are available out to 27 months and beyond for certain metals up to a maximum of 10 years.

12 Traded options contracts give the right to buy or sell the underlying futures contracts for all LME metals. They are traditional “American” style options (options that may be exercised on any day in its life) and can be purchased against a short or long futures contract.

13 Traded Average Price Options (“TAPOs”) provide a hedging tool for participants in the metals industry that price contracts on the basis of a monthly average price. TAPOs are “Asian” style options (options exercised at the average underlying price over a period) giving the right to buy or the right to sell metal at the average LME price for a given month.

14 The LMEX is an index contract based on the index weighted values of copper, primary aluminium, zinc, nickel, tin and lead, as traded on the LME. Both futures and options are available on the index. LMEminis are smaller contracts traded in lots of five tonnes (the lot size of the “parent” futures contract for each of these metals is set out at paragraph 11 above). Unlike other LME products, the LMEX and LMEminis are cash cleared.

15 LMEswaps are monthly futures contracts settled in cash against the monthly average of the daily cash settlement price of the relevant metal during the relevant month. The amount payable on maturity is the difference between the ‘fixed’ price agreed at the time of the contract and the average price for the relevant month.

LME Contracts

16 All LME contracts (i.e., contracts under which metal is traded in accordance with the LME rules and regulations (“LME Rules”) see tab 2) are entered into on a principal to principal basis (further information on this is set out at paragraph 36 of this Exhibit A-1). Regulation 1.4 of Part 3 of the LME Rules specifies that LME contracts may only be written by a category 1 member, category 2 member or category 4 member (each of which are broker members regulated by the UK Financial Services Authority), the effect of which being that all LME contracts will have at least one party being a regulated broker member of the LME. Members who enter into LME contracts therefore deal off their own book, entering into an equivalent contract with customers for whom they are acting. In addition, the members will typically

have entered into a separate contractual arrangement with their customers setting out the basis on which trades will be executed on the instructions of customers.

17 LME contracts take one of two forms: Exchange Contracts and Client Contracts. Only Exchange Contracts will be able to be traded on the financial market proposed to be conducted in the United States as only these contracts can be traded through LMEselect.

18 Exchange Contracts are contracts between two clearing members of the LME (*i.e.*, category 1, category 2 or category 3 members – see Exhibit B-1 below) which are cleared by LCH.Clearnet Limited (“LCH”)². By a process of novation each evening, the LCH becomes the central counterparty to each of the original parties to an Exchange Contract, *i.e.*, it becomes seller to every buyer and vice versa. The rules and regulations of the LCH are set out at tab 3.

19 Client Contracts are contracts between an LME member entitled to handle customer business (*i.e.*, category 1, category 2 or category 4 members – see Exhibit B-1 below for an explanation of the categories of LME members) and customers. These contracts are not novated to the LCH and therefore the contractual obligations remains with the original parties. Even though Client Contracts are not novated to the LCH, members are required to register them in the LME’s matching system (“LMEsmart”). Clearing members are not obliged to enter into an Exchange Contract to “back off” the Client Contract and, as a result, not every Client Contract is represented by an Exchange Contract between members.

20 The LME Rules provide that any dispute as to the existence, completion or validity of any LME contract, as well as any dispute arising out of such a contract, will be referred to arbitration proceedings administered by the LME. Parties entering into LME contracts are deemed to waive any immunity from suit or arbitration or the execution of any judgment or award on the ground of sovereignty, nationality, domicile, residence or otherwise. A copy of the LME Rules is set out at tab 2.

Location

21 The LME is based in London. It also has a representative office in Singapore which opened in 2010. Singapore limits the amount of time a representative office may be open. As such, should this office be retained, it may become either a branch office or a Singapore-incorporated entity in the future.

History

22 A history of the LME is illustrated at tab 4.

Size

23 The LME is a highly liquid market and in 2011 achieved traded volumes of 146.6 million lots, equivalent in value to US\$15.4 trillion annually. The LME is a global market with an international membership and with more than 95% of its

² The LCH is registered with the Commodity Futures Trading Commission (“CFTC” or the “Commission”) as a derivatives clearing organisation. See Supplement S-1 to this Form FBOT.

business coming from outside the United Kingdom. More than 450 brands of metal from over 60 countries are approved as “good delivery” against LME contracts. There are over 500 LME approved warehouses in 39 locations covering Europe, Asia and North America.

Ownership and corporate structure

24 The LME is operated and administered by The London Metal Exchange Limited, a wholly-owned subsidiary of LME Holdings Limited. Ownership of B shares in LME Holdings Limited is a prerequisite for those who are or wish to become trading members of the LME. The London Metal Exchange Limited is managed by a board comprising directors elected by the members, independent directors, invited directors and the LME’s Chief Executive. More information on the composition of the board of The London Metal Exchange Limited is set out at Exhibit C.

25 The sole shareholder of The London Metal Exchange Limited is LME Holdings Limited, a private limited company registered in England and Wales (registered number 4081218). LME Holdings Limited has no trading subsidiaries other than The London Metal Exchange Limited. A copy of the memorandum and articles of association of The London Metal Exchange Limited is attached at tab 5 and a copy of the memorandum and articles of association of LME Holdings Limited is attached at tab 6.

26 The London Metal Exchange Limited is a private limited company registered in England and Wales (registered number 2128666) whose registered office is at 56 Leadenhall Street, London, EC3A 2DX, United Kingdom. The London Metal Exchange Limited has no subsidiaries.

27 The share capital of LME Holdings Limited is made up of two classes of share – ordinary shares and B shares – which are subject to significantly different rights and restrictions under LME Holdings Limited’s articles of association. Ordinary shareholders have full rights to receive dividends, to attend and vote at general meetings as well as full participation rights on the winding-up of the company. Ordinary shares may only be held by current or former members of the LME. By contrast, B shares: (a) carry no right to the payment of any dividend by the Company; (b) carry only the right to receive an amount equal to the nominal value (one penny) paid up on each B share in any winding up or other return of capital. B shareholders are not entitled to any other participation in the profits of the Company; and (c) carry no right to receive notice of, attend or vote at any general meeting of the Company. A list of ordinary shareholders of LME Holdings Limited and their respective shareholdings is attached at tab 7. A list of the directors of LME Holdings Limited together with short biographies and a list of the directors of The London Metal Exchange Limited together with short biographies are attached at tab 8. The company secretary of both LME Holdings Limited and The London Metal Exchange Limited is Philip Needham who is also a member of the Executive Committee (see paragraph 30 below).

28 As the Commission is aware, the LME has been the subject of interest from a number of parties with a view to a potential takeover. On 15 June 2012, the LME

Board and the board of Hong Kong Exchanges and Clearing Limited (“HKEx”) announced that they had agreed the terms of a recommended cash offer for the acquisition by HKEx Investment (UK) Limited (“Bidco”) of the entire issued ordinary share capital of LME Holdings Limited (the “Acquisition”). Bidco is an indirect wholly owned subsidiary of HKEx. The Acquisition is being effected by way of a scheme of arrangement under Part 26 of the Companies Act 2006, which requires the approval of LME ordinary shareholders and the sanction of the UK High Court. Approval by the requisite majority of LME ordinary shareholders was obtained on 25 July 2012. The Acquisition must now be approved by the FSA, and completion is expected to occur during the fourth quarter of 2012. The LME has kept the Commission updated as to the progress of the Acquisition, and will continue to do so. If the Commission have any questions about the Acquisition, please do not hesitate to contact the LME.

Governance and committee structure

29 The governance structure of the LME provides for a number of sub-committees, the majority of which report to the board of The London Metal Exchange Limited either directly or through the Executive Committee. The LME committee structure is set out at tab 9.

30 Executive Committee: The Executive Committee, or EXCOM, is a sub-committee of the board of The London Metal Exchange Limited. The board of the London Metal Exchange Limited has delegated the running of the day to day operations of the LME to the Executive Committee. A list of the Executive Committee of the LME together with short biographies is attached at tab 10³. The terms of reference for the Executive Committee are attached at tab 11.

31 Operational Committees: The function of each of the operational committees (the metals committees, the Index Committee⁴, the Trading Committee⁵, the Traded Options Committee, the Ring Dealers Committee and the Warehousing Committee) is to make recommendations in accordance with their terms of reference. These committees contribute to the good governance of the LME, the orderly operation of the market and a close understanding its participants’ needs. The board of The London Metal Exchange Limited has delegated to the Executive Committee the initial consideration of those recommendations and the power to give effect to a number of those recommendations. A list of each of the members of the operational committees of the LME is attached at tab 12. The terms of reference for each of the operational committees are attached at tab 12.

32 Corporate governance committees: The Remuneration Committee, Nomination Committee and Trustee Committee report directly to the board of the

³ An Interim Chief Technology Officer also attends the Executive Committee. The LME Chief Technology Officer sadly and unexpectedly passed away a short while ago.

⁴ The Index Committee has not been convened for several years and the LMEX has not traded during that period. No information has been included regarding the members or terms of reference for this committee.

⁵ The Ring Dealers Committee is a sub-committee of the Trading Committee. A list of its members and its terms of reference are set out at tab 12.

London Metal Exchange Limited. The Audit and Risk Committee reports directly to the board of each of LME Holdings Limited and The London Metal Exchange Limited. A list of each of the members of the corporate governance committees of the LME is attached at tab 12. The terms of reference for each of the corporate governance committees are attached at tab 12.

33 Regulation and enforcement committees: The Arbitration Panel Committee, the Special Committee, the Enforcement Committee⁶ and the Quotations Committee are creations of the LME Rules.⁷ The LME Rules and the terms of reference for these committees (see tab 12) set out the functions of these committees and identify those powers that the committees exercise on behalf of the board of The London Metal Exchange Limited. Further detail as to the functions of the Special Committee and Enforcement Committee are set out at Exhibits C, D-2 and G-1 for the Special Committee and Exhibit G-3 for the Enforcement Committee. A list of each of the members of regulation and enforcement committees of the LME is attached at tab 12. The terms of reference for each of the regulation and enforcement committees is attached at tab 12.

34 Other committees: (i) The Charity Committee administers donations made by the LME. A list of the members of the Charity Committee of the LME is attached at tab 12. The terms of reference for the Charity Committee is attached at tab 12. (ii) The Trading Systems and Controls Committee is a sub-committee of the Executive Committee. It ensures that the LME's trading system LMEselect complies with regulatory requirements. The terms of reference for the Trading Systems and Controls Committee, which prescribe its membership, are set out at tab 12.

Current or anticipated presence of offices or staff in the United States

35 The LME has neither an office nor staff in the United States, nor does it have any plans to open or locate any there.

Anticipated volume of business emanating from members and other participants that will be provided direct access to the foreign board of trade's trading system

36 As noted at paragraphs 16 to 20 above, LME contracts take one of two forms: Exchange Contracts and Client Contracts. Exchange Contracts are contracts between two clearing members of the LME which are cleared by the LCH. Client Contracts are contracts between an LME member entitled to handle customer business and customers. Subject to certain conditions, a customer of an LME broker member may trade on LMEselect via the FIX API⁸. When a customer trades on LMEselect, its trade is "order routed" through an LME clearing member. The contractual flow resulting from a client trade on LMEselect is as follows: (i) the customer will enter into a Client

⁶ The Disciplinary Committees and the Appeal Committees are associated to the disciplinary procedures set out in the LME Rules. Membership and terms of reference for these committees are set out at tab 12.

⁷ The relevant provisions of the LME Rules are: (a) Part 8 of the Arbitration Panel Committee; (b) Regulation 11 of Part 2 for the Enforcement Committee; (c) Regulation 15 of Part 3 for the Special Committee; and (d) Regulations 5 and 6 of Part 3 for the Quotations Committee.

⁸ For further detail see Exhibit D-1.

Contract with a broker member of the LME, (ii) the broker will enter into an Exchange Contract with another broker which will be novated by the LCH. Non-members of the LME can not have direct access to LMEselect; whatever the form of the electronic connection, trades will always be routed through an LME member and the counterparty risk to non-members will always be carried by an LME clearing member. This principle is referred to throughout this form as the “principal to principal rule”.

37 The current, and based on this the anticipated, total volume of business emanating from members that will be provided direct access to LMEselect is set out at tab 13.

EXHIBIT A – GENERAL INFORMATION AND DOCUMENTATION

Exhibit A-2

Articles of association, constitution, or other similar organizational documents.

LME Submission: Exhibit A-2

1 The articles of association of the London Metal Exchange Limited and LME Holdings Limited are set out at tabs 5 and 6.

2 The LME Rules are another relevant constitution document. A copy of the LME Rules is set out at tab 2. Pursuant to Regulation 2.4 of Part 1 of the LME Rules, the LME Rules are binding on all members of the LME.

3 Pursuant to Regulation 2.2 of Part 1 of the LME Rules, Administrative Procedures shall have the same force as the LME Rules. A copy of the Administrative Procedures relevant to this submission are set out at tab 14. In this form, Administrative Procedures are referred to as “Notices”.

4 There are no other constitution documents relevant to this application. Copies of all Notices are available at <http://www.lexisnexis.com/clients/lme/> (a username and password are required – please contact james.muse@lme.com for further information).

EXHIBIT A – GENERAL INFORMATION AND DOCUMENTATION

Exhibit A-3 (1)

Membership and trading participant agreements.

LME Submission: Exhibit A-3(1)

1 The LME Rules, along with the Notices, set out the terms of the membership and form the binding agreement between the LME and each member. See Part 2 of the LME Rules at tab 2 and the Notices set out at tab 14.

2 In addition, it is worth noting that members are required to sign various agreements relating to sub-licensing of LME systems, but these have not been included here.

EXHIBIT A – GENERAL INFORMATION AND DOCUMENTATION

Exhibit A-3(2)

Clearing agreements.

LME Submission: Exhibit A-3(2)

1 Clearing services are provided to The London Metal Exchange Limited by the LCH (a derivatives clearing organisation). Each LME clearing member (categories 1, 2 and 3 – see Exhibit B-1) must also be a member of the LCH. As such, the clearing arrangements for all LME clearing members (as required by the LCH rules set out at tab 3 and the specific terms of the participant agreement(s) between the LCH and each LME clearing member) include requirements for the maintenance of appropriate bank accounts, payment facilities, documentation and the provision of collateral.

EXHIBIT A – GENERAL INFORMATION AND DOCUMENTATION

Exhibit A-4

Terms and conditions of contracts to be available through direct access (as specified in Exhibit E).

LME Submission: Exhibit A-4

1 The LME Rules, along with the Notices, set out the terms and conditions of contracts to be available to LME members. These are set out at tabs 2 and 14 respectively. Pursuant to the principal to principal rule, customers of LME members do not have direct access to LMEselect.

EXHIBIT A – GENERAL INFORMATION AND DOCUMENTATION

Exhibit A-5

The national statutes, laws and regulations governing the activities of the foreign board of trade and its respective participants.

LME Submission: Exhibit A-5

1 The national statutes, laws and regulations governing the activities of the foreign board of trade and its respective participants include:

- 1.1 Financial Services and Markets Act 2000 (Chapter 8);
- 1.2 Financial Services and Markets Act 2000 (Recognition Requirements for Investment Exchanges and Clearing Houses) Regulations 2001;
- 1.3 Financial Services and Markets Act 2000 (Recognition Requirements for Investment Exchanges and Clearing Houses) (Amendment) Regulations 2006;
- 1.4 Financial Services and Markets Act 2000 (Prescribed Markets and Qualified Investments) Order SI 2001/996 (“Prescribed Markets and Qualifying Investments Order”)
- 1.5 FSA Handbook⁹;
- 1.6 Directive 2004/39/EC of the European Parliament and of the Council (“MiFID”);
- 1.7 Directive 2006/73/EC of the European Parliament and of the Council (“MiFID Implementing Directive”);
- 1.8 Directive 2003/6/EC of the European Parliament and of the Council (“Market Abuse Directive”);
- 1.9 Markets (MiFID) (Consequential Amendments) Instrument 2007;
- 1.10 The UK Companies Act 2006
- 1.11 The Investment Exchanges and Clearing House Act 2006; and
- 1.12 Financial Services and Markets Act 2000 (Regulated Activities) Order 2001.

These documents are set out at tab 16.

⁹ Only the ‘CASS’, ‘REC’ and ‘MAR’ sections have been supplied as these specific parts are directly relevant to the LME.

EXHIBIT A – GENERAL INFORMATION AND DOCUMENTATION

Exhibit A-6

The current rules, regulations, guidelines and bylaws of the foreign board of trade.

LME Submission: Exhibit A-6

- 1 The LME Rules and material Notices are set out at tabs 2 and 14 respectively.

EXHIBIT A – GENERAL INFORMATION AND DOCUMENTATION

Exhibit A-7

Evidence of the authorization, licensure or registration of the foreign board of trade pursuant to the regulatory regime in its home country jurisdiction and a representation by its regulator(s) that it is in good regulatory standing in the capacity in which it is authorized, licensed or registered.

LME Submission: Exhibit A-7

1 Evidence of the authorization, licensure or registration of the foreign board of trade pursuant to the regulatory regime in its home country jurisdiction is set out at tab 17.

2 A representation by the UK Financial Services Authority (“FSA”), the regulator of the foreign board of trade in its home country jurisdiction, that it is in good regulatory standing in the capacity in which it is authorised, licensed or registered is set out at tab 18.

EXHIBIT A – GENERAL INFORMATION AND DOCUMENTATION

Exhibit A-8

A summary of any disciplinary or enforcement actions or proceedings that have been brought against the foreign board of trade, or any of the senior officers thereof, in the past five years and the resolution of those actions or proceedings.

LME Submission: Exhibit A-8

1 There have been no disciplinary or enforcement actions or proceedings that have been brought against the foreign board of trade, or any of the senior officers thereof, in the past five years.

EXHIBIT A – GENERAL INFORMATION AND DOCUMENTATION

Exhibit A-9

An undertaking by the chief executive officer(s) (or functional equivalent[s]) of the foreign board of trade to notify Commission staff promptly if any of the representations made in connection with or related to the foreign board of trade's application for registration cease to be true or correct, or become incomplete or misleading.

LME Submission: Exhibit A-9

1 An undertaking by the Chief Executive Officer of the LME to notify Commission staff promptly if any of the representations made in connection with or related to the LME's application for registration cease to be true or correct, or become incomplete or misleading is set out at tab 19.

EXHIBIT B – MEMBERSHIP CRITERIA

Exhibit B - 1

A description of the categories of membership and participation in the foreign board of trade and the access and trading privileges provided by the foreign board of trade. The description should include any restrictions applicable to members and other participants to which the foreign board of trade intends to grant direct access to its trading system.

LME Submission: Exhibit B - 1

Description of the categories of membership

1 The LME has seven main categories of members which vary in their associated obligations and responsibilities. Only four categories have any trading rights and only two of those have access to LMEselect, the LME's electronic trading system:

Ring Dealing Members (category 1): These members have the exclusive right to trade by open outcry in the ring and are entitled to issue Client Contracts to their customers. As clearing members, they are permitted to clear trades and, as a result, must be members of the LCH. Category 1 members must be regulated by the UK Financial Services Authority and have access to LMEselect.

Associate Broker Clearing Members (category 2): These members are clearing members and are permitted to issue Client Contracts and trade Exchange Contracts. Category 2 members must be regulated by the UK Financial Services Authority and have access to LMEselect.

Associate Trade Clearing Members (category 3): These members can clear their own trades but are not permitted to issue Client Contracts. Category 3 members may only trade with category 1 or category 2 members, and are not required to be regulated by the UK Financial Services Authority and have no access to LMEselect.

Associate Broker Non-Clearing Members (category 4): These members are not clearing members but are permitted to issue Client Contracts. Category 4 members are regulated by the UK Financial Services Authority but have no direct access to LMEselect.

Associate Trade Non-Clearing Members (category 5): These members are neither clearing members nor are they permitted to issue Client Contracts. Category 5 members are not regulated by the UK Financial Services Authority and have no trading rights.

Individual Members (category 6): Individual members are persons who wish to maintain links with the Exchange for business purposes, such as consultants and arbitrators. These members have no trading rights on the LME.

Honorary Members (category 7): Honorary membership is conferred on individuals who have given conspicuous service to the LME at the discretion of the directors, e.g. former chief executives and chairmen of the LME. These members have no trading rights on the LME.

2 A list of all LME members by category is attached at tab 20.

Access and trading privileges

3 Only category 1 members may trade in the ring. Only category 1, category 2 and category 3 members are permitted to clear and settle positions entered into with other members. Category 1, category 2 and category 4 members may provide financial services in effecting transactions through the market. Category 3 and

category 5 members are essentially customers of category 1, category 2 and category 4 members. An illustration of the various rights of each member is set out at tab 21.

Application process

4 Application for membership of the LME is made in a prescribed form (see tab 15) together with the appropriate fee. Notice of a new application is given to members of the LME who are entitled to submit written objections. Each application is considered by the board of The London Metal Exchange Limited against the criteria set out in Part 2 of the LME Rules¹⁰. Corporate members are required to be of suitable business and financial standing and, in considering their suitability, the LME takes account not only of the organisation itself but also of its employees and representatives. In addition, each of the five main categories is subject to a minimum net worth requirement (£5,000,000 for categories 1, 2 and 4, £2,500,000 for category 3 and £50,000 for category 5). Categories 1, 2, 3 and 4 members are required to own a prescribed number of B shares in LME Holdings Limited. On obtaining membership, an undertaking becomes contractually bound by the LME Rules. The LME, in its sole discretion, may refuse any application to become an LME member or approve any application subject to conditions. Categories 1, 2 and 4 members, as regulated firms, will be subject to more detailed financial resources requirements by the UK Financial Services Authority.

Restrictions applicable to direct access to LMEselect

5 Pursuant to the principal to principal rule, non-members of the LME can not have direct access to LMEselect. Whatever the form of the electronic connection, trades will always be routed through an LME member and the counterparty risk to non-members will always be carried by an LME clearing member. Further information on access to LMEselect is set out in Exhibit D-1.

6 Regulation 12 of Part 3 of the LME Rules sets out rules that specifically address dealings on LMEselect. The LMEselect operating procedures which are referred to within this section of the LME Rules are set out at tab 22.

¹⁰ The admission requirements for Ring Dealing Members (category 1) are set out at Regulation 1.2 of Part 2 of the LME Rules. The admission requirements for Associate Broker Clearing Members (category 2) are set out at Regulation 1.3 of Part 2 of the LME Rules. The admission requirements for Associate Trade Clearing Members (category 3) are set out at Regulation 1.3 of Part 2 of the LME Rules. The admission requirements for Associate Non-Clearing Broker Members (category 4) are set out at Regulation 1.4 of Part 2 of the LME Rules. The admission requirements for Associate Non-Clearing Trade Members (category 5) are set out at Regulation 1.4 of Part 2 of the LME Rules. The admission requirements for Individual Members (category 6) are set out at Regulation 1.5 of Part 2 of the LME Rules. The admission requirements for Honorary Members (category 7) are set out at Regulation 1.6 of Part 2 of the LME Rules. In addition, each category 1, 2 and 4 member must be comply with Regulation 4 of Part 2 of the LME Rules.

EXHIBIT B – MEMBERSHIP CRITERIA

Exhibit B - 2

A description of all requirements for each category of membership and participation on the trading system and the manner in which members and other participants are required to demonstrate their compliance with these requirements. The description should include, but not be limited to, the following:

(i) Professional Qualification.

A description of the specific professional requirements, qualifications, and/or competencies required of members or other participants and/or their staff and a description of the process by which the foreign board of trade confirms compliance with such requirements.

(ii) Authorization, Licensure and Registration.

A description of any regulatory and self-regulatory authorization, licensure or registration requirements that the foreign board of trade imposes upon, or enforces against, its members and other participants including, but not limited to any authorization, licensure or registration requirements imposed by the regulatory regime/authority in the home country jurisdiction(s) of the foreign board of trade. Please also include a description of the process by which the foreign board of trade confirms compliance with such requirements.

(iii) Financial Integrity.

A description of the following:

(A) The financial resource requirements, standards, guides or thresholds required of members and other participants.

(B) The manner in which the foreign board of trade evaluates the financial resources/holdings of its members or participants.

(C) The process by which applicants demonstrate compliance with financial requirements for membership or participation including, as applicable:

(i) Working capital and collateral requirements, and

(ii) Risk management mechanisms for members allowing customers to place orders.

(iv) Fit and Proper Standards. A description of how the foreign board of trade ensures that potential members/other participants meet fit and proper standards.

LME Submission: Exhibit B - 2

Requirements for each category of membership and participation on the trading system and the manner in which members and other participants are required to demonstrate their compliance with these requirements

1 All LME members are required by the LME to satisfy the membership criteria described in Exhibit B - 1 on an ongoing basis. Members are required to notify the LME of anything the LME might reasonably be expect to be disclosed to it (see regulation 9.6(d) of Part 2 of the LME Rules at tab 2). This would include all legal, financial and regulatory events material to their standings as members of the LME.

2 The additional requirements imposed on LME members for access to LMEselect are set out in Exhibit D. Pursuant to the principal to principal rule, trades on LMEselect will always be routed through an LME member. As such, other than LME members, there are no other participants to which separate requirements for participation on LMEselect may apply.

3 Regulation of the market is largely carried out by the LME, while the FSA is responsible for regulating the financial soundness and conduct of LME members' business. The FSA and the LME monitor members on an ongoing basis to confirm that members are in full satisfaction of their respective regulatory obligations, as further described in Exhibits F and G in turn.

Authorization, Licensure and Registration

4 No member may undertake any regulated activity¹¹ in relation to the LME unless it is authorised (including by exemption – e.g. in relation to members based outside the United Kingdom, in other European Union countries, who have been authorised by their home regulator) by the FSA to carry on such regulated activity (see regulation 4.2 of Part 2 of the LME Rules). As a result, all trading (category 1, 2 and 4) members must comply with the FSA rules. Members must inform the LME immediately of any variation, cancellation or permission to carry on a regulated activity (regulation 4.3 of Part 2 of the LME Rules).

5 The ability to handle customer business through the issue of Client Contracts means that category 1, 2 and 4 members must at all times be regulated for this specific purpose by the FSA. Among other things, as part of the application process the LME checks via the FSA that members have received the requisite regulatory permission from the FSA for the type of investment business they wish to conduct on the LME. These regulatory requirements would preclude retail investors from becoming LME members.

Professional Qualifications

6 The FSA rules require the staff of FSA authorised firms to have taken certain examinations in relation to the regulated activities which the firm is permitted to perform. The FSA monitors these authorised firms and the qualifications of the staff

¹¹ As defined in the Financial Services and Markets Act 2000 - see Exhibit F for further details.

of these firms. Further information as to how the FSA supervises authorised firms is set out in Exhibit F.

Financial Integrity

7 The financial resource requirements, standards, guides or thresholds required of members are set out at Part 2 of the LME Rules at tab 2. Paragraph 4 of Exhibit B – 1 sets out the application process for prospective members during which these requirements are assessed by the LME. Regulation 9.1.1 of Part 2 of the LME Rules requires each member to submit annual audit accounts within four months of the end of the financial year for its ultimate parent undertaking. This information is used to verify that members have complied with the financial resource requirements set out in the LME Rules.

8 The LCH (which has counterparty risk exposure to category 1, 2 and 3 members through the clearing of Exchange Contracts) monitors the collateral requirements for LME members on an ongoing basis. The FSA (whose rules each category 1, 2 and 4 members must comply with) monitors the financial soundness of LME members on an ongoing basis. Further details of how the FSA monitors LME members is set out in Exhibit F. Details of how the LME monitors the risk management mechanisms for members allowing customers to place orders is set out at Exhibit G - 1.

Fit and Proper Standards

9 The FSA is responsible for regulating the financial soundness and conduct of LME members' business. The admission process for becoming an FSA regulated firm includes a fit and proper person test. Further detail as to how the FSA monitors LME members is set out in Exhibit F.

EXHIBIT C – BOARD AND/OR COMMITTEE MEMBERSHIP

Attach, as **Exhibit C**, the following:

- (1) A description of the requirements applicable to membership on the governing board and significant committees of the foreign board of trade.
- (2) A description of the process by which the foreign board of trade ensures that potential governing board and committee members/other participants meet these standards.
- (3) A description of the provisions to minimize and resolve conflicts of interest with respect to membership on the governing board and significant committees of the foreign board of trade.
- (4) A description of the rules with respect to the disclosure of material non-public information obtained as a result of a member's or other participant's performance on the governing board or significant committee.

LME Submission: Exhibit C

1 The board and committee structure of the LME is described at paragraphs 29 to 34 of Exhibit A-1. The significant committee of the FBOT reporting to the board of The London Metal Exchange Limited is the Executive Committee.

A description of the requirements applicable to membership on the governing board and significant committees of the foreign board of trade.

2 The requirements applicable to directors of the board of The London Metal Exchange Limited are set out in the articles of association (see tab 5). The maximum number of directors is thirteen and shall comprise of: (i) up to six Shareholder Representative Directors¹²; (ii) up to two Invited Directors who have substantial experience in a relevant trade or business and who have no current direct connection with any category 1 to 4 member of the LME, nor any group undertaking of a category 1 to 4 member; (iii) a Trade Director who is nominated by the category 5 members and elected by the category 3 and 5 members; (iv) up to three Independent Directors who have no current connection with the business or businesses of The London Metal Exchange Limited; and (v) the Chief Executive. At present the board of The London Metal Exchange Limited comprises of one Invited Director (Mr Michael Lockwood), three Shareholder Representative Directors of category 1 members (Mr James Land, Mr Michael Overlander and Mr Gavin Prentice), three Shareholder Representative Directors of category 2 members (Mr Stephen Branton-Speak, Mr James Coupland and Mr Fabian Sommerville-Cotton), one Trade Director (Ms Gabriela Grillo), three Independent Directors (Sir Brian Bender, Ms Catherine Claydon and Mr Richard Laing) and the Chief Executive of the LME, Mr Martin Abbott.

3 The Chief Executive of the LME proposes the members of the Executive Committee to the board of The London Metal Exchange Limited for approval. The current membership of the Executive Committee is set out in its terms of reference (see tab 11).

A description of the process by which the foreign board of trade ensures that potential governing board and committee members/other participants meet these standards.

4 Process notes for the appointment of directors to the board of The London Metal Exchange Limited are set out at tab 23. The Nomination Committee is tasked with ensuring candidates meet the required standards. The terms of reference for the Nominations Committee are set out at tab 12. Members of the Executive Committee are employees of The London Metal Exchange Limited and are subject to routine background checks and other appropriate due diligence as part of the hiring process.

¹² Comprising of (a) three Shareholder Representative Directors elected by the category 1 members of the LME and (b) three Shareholder Representative Directors elected by the category 2 members of the LME.

A description of the provisions to minimize and resolve conflicts of interest with respect to membership on the governing board and significant committees of the foreign board of trade.

5 Under section 175 of the UK Companies Act 2006 (tab 16), a director has a statutory duty to avoid any situations in which he has, or could have, a direct or indirect interest that conflicts, or could conflict, with the interests of the company. Section 175 (2) emphasises the applicability of the duty to the exploitation of any property, information or opportunity, and confirms that it is irrelevant whether the company itself could have taken advantage of that property, information and opportunity.

6 The LME takes the potential for conflicts of interest to arise and the associated consequences extremely seriously. It has in place appropriate and proportional procedures to mitigate the risk of such occurrences. These procedures supplement the statutory duties on directors set out in the UK Companies Act 2006.

7 The articles of association for the board of The London Metal Exchange Limited set out explicit procedures to deal with such scenarios (see Articles 43, 44 and 54 – 62 at tab 5), as do the terms of reference for each committee (see tab 12). These procedures are followed as a matter of course. In addition, each member of the board of The London Metal Exchange Limited receives, and is required to return a signed copy to the LME before appointment, of the conflicts guidance note set out at tab 24.

8 The terms of reference for the Executive Committee (tab 11) explicitly address the risk of a conflict of interest arising. In addition, the contracts of employment for each of the members of the Executive Committee address this.

A description of the rules with respect to the disclosure of material non-public information obtained as a result of a member's or other participant's performance on the governing board or significant committee.

9 As a fiduciary, a director owes a duty of confidentiality to the company of which he is a director. As a result, a director of the board of The London Metal Exchange Limited is obliged to keep confidential information obtained from his or her role as a director. Directors must therefore ensure that no confidential information received by them as directors is disclosed to any third party, including their employer or any shareholder, unless expressly agreed to by the relevant board. This obligation is reinforced in the letter of appointment for each member of the board of The London Metal Exchange Limited is bound by obligations of confidentiality.

10 Regulation 15 of Part 3 of the LME Rules explicitly provides that the powers of the board of the LME to interfere in the LME's markets are delegated to a sub-committee of the board (the Special Committee). The terms of reference of the Special Committee are set out at tab 12. The membership of the Special Committee is restricted to Independent Directors on the board of the LME and other persons with no material interest in the metals trade or industry. This restriction is designed to ensure that the confidential information seen by the Special Committee is not available to those on the board of the LME with a conflict of interest.

11 The terms of reference for the Executive Committee (tab 11) explicitly address how confidential information should be treated by its members. In addition, the contracts of employment for each of the members of the Executive Committee address the treatment of confidential information.

EXHIBIT D – THE AUTOMATED TRADING SYSTEM

Exhibit D-1

A description of (or where appropriate, documentation addressing) the following, separately labeling each description:

- (1) The order matching/trade execution system, including a complete description of all permitted ways in which members or other participants (or their customers) may connect to the trade matching/execution system and the related requirements (for example, authorization agreements).
- (2) The architecture of the systems, including hardware and distribution network, as well as any pre- and post-trade risk-management controls that are made available to system users.
- (3) The security features of the systems.
- (4) The length of time such systems have been operating.
- (5) Any significant system failures or interruptions.
- (6) The nature of any technical review of the order matching/trade execution system performed by the foreign board of trade, the home country regulator, or a third party.
- (7) Trading hours.
- (8) Types and duration of orders accepted.
- (9) Information that must be included on orders.
- (10) Trade confirmation and error trade procedures.
- (11) Anonymity of participants.
- (12) Trading system connectivity with clearing system.
- (13) Response time.
- (14) Ability to determine depth of market.
- (15) Market continuity provisions.
- (16) Reporting and recordkeeping requirements.

LME Submission: Exhibit D-1

A description of the order matching/trade execution system, including a complete description of all permitted ways in which members or other participants (or their customers) may connect to the trade matching/execution system and the related requirements (for example, authorization agreements).

1 LMEselect uses the Tradexpress platform owned by Cinnober Financial Technology AB. We understand this platform is widely used by various multinational exchanges throughout the world, including several exchanges that are headquartered in the United States¹³. LMEselect is a customised version of this platform. This customisation is primarily required to tailor the platform to suit the LME's unique daily prompt date structure. A description of the functionality of LMEselect is set out in the user guide at tab 25.

2 A comprehensive description of how members may connect to LMEselect is set out in the connectivity guide at tab 26. There are two primary methods of access: (i) via a graphical user interface ("GUI"); and (ii) by way of the FIX¹⁴ API¹⁵, the most common form of access, which members use to develop an interface between their in-house systems and LMEselect. The FIX API interface permits members to route orders from their in-house systems to LMEselect. In addition to this, a number of independent software vendors offer off-the-shelf software solutions to members using the FIX API. Members and independent software vendors must have signed certain software licences prior to accessing LMEselect.

3 As non-members of the LME can not have direct access to LMEselect (the principal to principal rule – see paragraph 36 of Exhibit A-1), whatever the form of the electronic connection to LMEselect, trades will always be routed through an LME member and the counterparty risk to non-members will always be carried by an LME clearing member. This principle is imposed on the two primary forms of access to LMEselect as follows:

(a) GUI: Any trader using the GUI to access LMEselect must be an accredited user. Each accredited user of LMEselect must be an employee of a member or a person authorised to trade on behalf of that member by the FSA; customers of members can not access LMEselect via the GUI. Where a member wishes to trade on LMEselect via the GUI, it will apply to the LME for access on behalf of a named accredited user. Access to the system is restricted to that accredited user. Once authorised, each accredited user is given a unique user login that is the responsibility of the member to maintain. Each member must ensure that any necessary and proportionate pre- and post-trade risk controls in place with regards to that GUI login.

¹³ Such customers include the Chicago Board Options Exchange and NYSE Liffe.

¹⁴ The Financial Information eXchange ("FIX") is a protocol that allows financial institutions to stream trading-related data in a fast and safe manner.

¹⁵ Application programming interface – a tool within LMEselect that enables users to develop bespoke code for use with LMEselect.

(b) FIX API: Where a member wishes to access LMEselect via the FIX API it will submit a request for a FIX key to the LME. As a customer of a member is able to order route its trades via an LME member into LMEselect (see paragraph 36 of Exhibit A-1), each request for a FIX key must specify who will access LMEselect via that FIX key. Each member must ensure that any necessary and proportionate pre- and post-trade risk controls in place with regards to that FIX key. It is the responsibility of the member to notify the LME of any changes to the use associated to that FIX key. Notice 09/346 requires each member to ensure that a tag field is populated within LMEselect (tag58) with a code produced by the member's own system that will identify if it was a member or customer account which generated the order and also requires the member to notify the LME compliance department of the identity of the member or customer account represented by that code prior to orders being generated for that account. This condition of access enables the LME to track order routing through the FIX API.

4 Irrespective of the means of access to LMEselect, members are responsible for ensuring that all activity on LMEselect is conducted in accordance with the LME Rules and all other applicable regulatory requirements. A member to which a FIX key or GUI login is provided is responsible for all activity in relation to that FIX key or GUI login, including ensuring that necessary and proportionate pre- and post-trade risk controls are in place. In the case of a FIX key, this applies irrespective of whether a member or customer account is trading through that FIX key. LME members are financially accountable for any trading activity undertaken on LMEselect via a GUI log in or FIX key in their name and may be subject to disciplinary action for failure to ensure compliance with the LME Rules.

A description of the architecture of the systems, including hardware and distribution network, as well as any pre- and post-trade risk-management controls that are made available to system users.

5 A description of the architecture of LMEselect, including the hardware and distribution network relevant to it, is set out at tab 27.

6 The FSA considers the LME's pre- and post-trade systems and controls to comply with the requirements of the European Market Security Authority's "Guidelines on systems and controls in an automated trading environment for trading platforms, investment firms and competent authorities" issued in December 2011. The LME's pre- and post-trade risk management controls are well adapted to the business which takes place through its markets and are robust enough to ensure continuity and regularity in the performance of these markets. The LME's pre- and post-trade risk management controls include:

(a) Order to trade ratio: The LME's order to trade ratio policy has been designed to ensure orderly conduct of trading on LMEselect and to protect LME and member systems. It applies separately to each LMEselect FIX key and each GUI user that enters more than 20,000 orders during a trading day. The policy has three triggers: (i) if the ratio of orders to trades generated by an LMEselect FIX key or GUI user exceeds 20:1 as an average during a trading day the LME will charge the relevant member in respect of that LMEselect FIX key or GUI user a daily fee of £2,500; (ii) if the ratio of orders to trades generated by an LMEselect FIX key or GUI user exceeds

25:1 as an average during a trading day the LME will charge the relevant member in respect of that LMEselect FIX key or GUI user a daily fee of £10,000; and (iii) if the ratio of orders to trades generated by an LMEselect FIX key or GUI user exceeds 30:1 as an average during a trading day the LME will suspend access to LMEselect for that LMEselect FIX key or GUI user until such time as the member responsible for that LMEselect FIX key or GUI user has satisfied the LME that sufficient controls have been put in place to ensure that the order to trade ratio generated from that LMEselect FIX key or GUI user will not exceed 30:1. Further information is set out in Notice 11/106 (tab 14). It should be noted that the LME reserves the right to restrict or suspend access to LMEselect if the LME determines in its absolute discretion that message usage generated from any LMEselect FIX key, GUI user or from any member connection becomes capable of impairing the orderly conduct of trading on LMEselect.

(b) Trade cancellation: Notice 08/47 (tab 14) sets out the LMEselect Error Trade Policy. This sets out three different circumstances relating to error trades on LMEselect: (i) the no-cancellation range within which members will not be permitted to cancel error trades; (ii) the procedures for the LME to permit the cancellation of error trades outside the no-cancellation range where either both parties agree to cancel or only one party agrees to cancel; and (iii) the reserve power of the LME to cancel error trades in order to protect the integrity of the market.

(c) Throttling policy: The maximum number of order entries/updates that can take place on LMEselect is 40 per second for each LMEselect FIX key or GUI user. Order entry/updates submitted in excess of this in any given second will be queued and smoothed over the following seconds according to the throttling limit maximum. Order/entry updates are not rejected. For further information see Notice 11/107 at tab 14.

(d) User-level permissions: The trading ability of each GUI or FIX key user can be restricted so that only a certain type or types of contract that can be traded. Members can also set bespoke volume and price deviation limits for each user.

(e) Volume and price limiting functionality: The LME sets hard limits for the maximum volume or price deviation from the last traded price that can be transmitted to LMEselect. These limits are constantly monitored to ensure that they are set at appropriate levels given the state of the market at that time. These levels are published in LMEselect so that all LMEselect users are aware of the limits at any given time.

The LME stays abreast of technological advancements and trends in the use of technology by its members and their clients by liaising directly with other exchanges and attending and participating in industry working groups and networking events. Future plans for additional pre- and post-trade risk controls include an interval price limit (automated circuit breaker).

7 Members and ISVs may also add additional pre- and post-trade risk management functionality to their trading systems that are used to access LMEselect via the FIX API. The GUI also has certain in-built controls as set out in the LMEselect user guide at tab 25.

The security features of the system

8 LMEselect provides a number of security features at both the user level and at the system level. User level security can be sub-categorised into LME users and member users.

9 For LME users who monitor and manage LMEselect, the security features include: authentication of users with a configurable threshold for the number of permitted attempts to authenticate; strong encryption of password in storage and memory; traceability of all actions performed; traceability of all access violations; ability to configure password policy including enforcement of password changes; and a role-based access policy with three types of roles and proportionate access rights (supervisor, observer and limited observer).

10 For member users, the security features include: authentication of users with a configurable threshold for the number of permitted attempts to authenticate; strong encryption of password in storage and memory; ability to configure password policy including enforcement of password changes; enforcement of access control; traceability of all access violations; trading restrictions (by market, instrument type, etc.) depending on the user's trading access profile; market data restrictions (by market, instrument type etc.) depending on the user's market access profile; and audit logging of all trading activity.

11 The system level security for LMEselect makes use of the security provided by the network infrastructure (firewalls, routers – for further details see the architecture document at tab 27) under which the system resides, the operating system under which LMEselect is running (for further details see the architecture document at tab 27) and specific LMEselect security features which include: registration of all LMEselect processes upon startup to stop any potential rogue processes being activated; a strict publish/subscribe mechanism for all broadcast messages including sequence numbering and subscription registration; audit logging of all LMEselect process state changes; limited access to management interface on each server; and segregation of traffic (external, internal, management and broadcast) which limits the role of each server within a system to its intended function.

12 The LME also has an information security policy and an ongoing programme to ensure that the LME's information security controls are kept up to date with technological developments.

The length of time such systems have been operating

13 The LME launched LMEselect in 2000 and first released LMEselect based on the Tradexpress platform in 2003. This has been updated periodically over time, with the most recent launch being version 7 of LMEselect in November 2011.

Any significant system failures or interruptions

14 No IT system should be warranted to operate bug-free. For the LME, any interruptions that may occur are mitigated by the operation of its parallel markets: the telephone market and the ring. As a result, any interruptions that may occur to LMEselect are less significant than those faced by purely electronic exchanges, as trading is capable of continuing on these parallel markets.

15 In 2011 the availability of LMEselect was 99.94% during its trading hours. The LME has in place robust contractual arrangements with its third party service providers to incentivise extremely high availability of its entire core IT infrastructure.

The nature of any technical review of the order matching/trade execution system performed by the foreign board of trade, the home country regulator, or a third party

16 No such technical reviews have been undertaken by the FSA or any other third party. The LME has worked in partnership with Cinnober since 2003, and its primary IT outsourcer (Xchanging Global Insurance Solutions Limited) since 2005, to improve the performance of LMEselect. Any technical reviews that have been undertaken will have formed part of the iterative design process leading to the next release of LMEselect. The last such release was in November 2011.

Trading hours

17 Trading on LMEselect takes place between 1am and 7pm (GMT) on each trading day. Trading days are specified by the LME by way of Notice.

Types and duration of orders accepted

18 All orders on LMEselect are limit orders: an order to buy or sell a specific number of lots for a specific contract at a specific price (including a higher price for a bid and a lower price for an ask). There are no market orders on LMEselect. Where orders trade in part, unless otherwise specified, the unfilled balance remains an active order until it is withdrawn, traded, or automatically cancelled in accordance with its validity period.

19 LMEselect accepts single orders¹⁶ and combination orders¹⁷ for execution. LMEselect also has certain in-built order management functionality including: iceberg orders (this function can be used to minimise the risk of price movement caused by other traders seeing the intention to buy or sell a substantial quantity, the trade can be split into parts, each of which will be revealed to the market in turn when the previous part of the order has been filled); discretionary orders (orders that have a

¹⁶ A single order is a solitary bid or ask order related to a specific futures or option series. These orders are commonly referred to as outright orders.

¹⁷ Combination orders are orders that are comprised of two or more individual orders that are subject to the condition that each individual order that is part of the combination order must be executed simultaneously.

visible price and a discretionary (cap) price - the discretionary price is not published); and scaling (allows multiple orders to enter the market at user defined increments such as different prices). Further details as to the types of orders permissible within LMEselect are set out in the LMEselect operating procedures at tab 22 and the LMEselect user guide at tab 25.

Information that must be included on orders

20 When placing an order or varying or cancelling an order on LMEselect, a trader is required to enter all of the relevant trade details, including: (i) the instrument, (ii) whether the order is to buy or to sell; (iii) in the case of an option, whether it is a put or a call; (iv) the price of the order; (v) the quantity; (vi) the expiration month; and (vii) the validity time. The information that must be included on orders is set out in further detail in the LMEselect operating procedures at tab 22 and the LMEselect user guide at tab 25.

Trade confirmation and error trade procedures

21 The trade confirmation and error trade procedures are set out at paragraph 6 above and in the LMEselect operating procedures at tab 22 and the LMEselect user guide at tab 25.

Anonymity of participants

22 Users of LMEselect do not see any counterparty information when trading on LMEselect other than the order book. The order book does not contain any information which could identify any counterparty. As such, traders are not aware of whose orders they are viewing or trading against, either before or after a trade.

Trading system connectivity with clearing system

23 The LCH is the LME's clearing services provider. The clearing system it uses for LME business is known as Synapse. LMEsmart, the LME matching system, matches trades for the LME telephone market and ring. Trades that are matched in LMEselect are transferred to LMEsmart prior to being transmitted to Synapse.

24 Connectivity between LMEsmart and Synapse is through a virtual gateway, which is LCH proprietary software. As noted at paragraph 18 of Exhibit A-1, the LCH is a DCO.

Response time

25 All instructions transmitted to LMEselect are dealt with on an impartial basis and in strict accordance with the time at which the instructions were received, regardless of the membership class of the member which inputted the order or through which the order was routed. Moreover, LMEselect itself has been constructed to ensure that, as far as is reasonably possible, no one network connection is disadvantaged over another and the order execution of all participants is equitable. The LME monitors the performance of the network on a daily basis to ensure that

users are able to use LMEselect on a sufficiently equivalent basis. Testing of the latest release of LMEselect has indicated a response time of around five milliseconds.

Ability to determine depth of market

26 The functionality built in to the front-end LMEselect screen enables market depth to be viewed up to a maximum of 15 orders. LMEselect users may also view full market depth on a separate market depth screen. Users that access LMEselect via the FIX API are able to create bespoke market depth analysis with an unlimited capacity based on order update flows.

Market continuity provisions

27 As noted at paragraph 10 above, the LME operates two markets in parallel to LMEselect: the telephone market and the ring. As such, any interruptions that may occur to LMEselect are less significant than those faced by purely electronic exchanges, as trading can continue to take place on these parallel markets.

28 In addition to the continuity enabled by these parallel markets, the LME has robust business continuity and disaster recovery plans and procedures for all of its business operations. The FSA regularly reviews the LME's business continuity and disaster recovery procedures. LMEselect has a highly available design architecture that includes a dual data centre failover capability. If there is a fault with the primary data centre where LMEselect is hosted, the secondary data centre will be utilised. These installations replicate each other in real time so that the trading information on both is up to date at all times. The LME routinely varies which of its data centres is the primary in order to validate this failover capability.

29 Members who access LMEselect have two telecommunications lines diversely routed using different suppliers wherever possible. In most instances, these lines go to the main premises of the members and not to a separate location. If there is a communications fault on one of the two lines, the other line will still be available. If the building of a member experiences a communications failure, users can access the system via GUI over the internet, which is how overseas traders usually choose to connect for all their trading activity.

Reporting and recordkeeping requirements

30 The LME Rules set out various reporting obligations upon LME members. Further information on the various reporting obligations on LME members is set out at Exhibit G.

31 Regulations 9.6(c) of Part 2 and 3.13.1 of Part 3 of the LME Rules set out specific record keeping requirements that LME members must adhere to in addition to the FSA rules set out at Exhibit F.

Exhibit D-2

A description of the manner in which the foreign board of trade assures the following with respect to the trading system, separately labeling each description:

- (1) Algorithm. The trade matching algorithm matches trades fairly and timely.
- (2) IOSCO Principles. The trading system complies with the Principles for the Oversight of Screen-Based Trading Systems for Derivative Products developed by the Technical Committee of the International Organization of Securities Commissions (IOSCO Principles). Provide a copy of any independent certification received or self-certification performed and identify any system deficiencies with respect to the IOSCO Principles.
- (3) Audit Trail.
 - (i) The audit trail timely captures all relevant data, including changes to orders.
 - (ii) Audit trail data is securely maintained and available for an adequate time period.
- (4) Public Data. Adequate and appropriate trade data is available to users and the public.
- (5) Reliability. The trading system has demonstrated reliability.
- (6) Secure Access. Access to the trading system is secure and protected.
- (7) Emergency Provisions. There are adequate provisions for emergency operations and disaster recovery.
- (8) Data Loss Prevention. Trading data is backed up to prevent loss of data.
- (9) Contracts Available. Mechanisms are available to ensure that only those futures, option or swap contracts that have been identified to the Commission as part of the application or permitted to be made available for trading by direct access pursuant to the procedures set forth in § 48.10 are made available for trading by direct access.
- (10) Predominance of the Centralized Market. Mechanisms are available that ensure a competitive, open, and efficient market and mechanism for executing transactions.

LME Submission: Exhibit D-2

A description of the manner in which the foreign board of trade assures the trade matching algorithm matches trades fairly and timely.

1 LMEselect operates a fair and timely trade matching algorithm on a “price / time” basis. There is a single order book which is visible to all users. All incoming orders are stored in the order book, with the priority of orders determined by primary reference to the price of the order and secondary reference to the time the order was received. Orders with the best price are ranked first on the respective buy and sell side. If two orders have the same price, the order that was received first by the LMEselect matching engine will be ranked in preference.

2 LMEselect matches orders when: (i) one order is a bid and one an ask; (ii) the orders are for the same instrument and date; and (iii) the price of the bid (ask) is equal to or greater than (less than) the price of the ask (bid). The incoming order is filled to its limit with the orders on the opposite side according to the price and time priority set out above. If an order is only filled in part, the unfilled element will remain open until it can be filled or until it is cancelled either manually or in accordance with its validity period. Where an iceberg order is placed, once the then public part of that order has been filled, the next public part of that order will get the lowest priority on the current price level at the time it is revealed.

3 An order that has been placed which does not match a stored order is stored, ranked, or cancelled, in accordance with its terms. The validity periods for which an order can be made are set out in the LMEselect operating procedures at tab 22. The ranking of a stored order is not affected if the order is modified and the modification involves only a reduction in the volume or validity period of the order or a variation in the customer identity. Any variation in a stored order that involves its price, an extension of its validity period or an increase in the volume of an order is treated as a cancellation of the original order and a substitution of a new order. The time priority of the new order is determined by the time at which the new order was entered in the order book.

IOSCO Principles

4 The Tradexpress platform upon which LMEselect is based is used by various multinational exchanges, including several international exchanges that are headquartered in the United States¹⁸. The LME understands that Tradexpress complies with the Principles for the Oversight of Screen-Based Trading Systems for Derivative Products developed by the Technical Committee of the International Organization of Securities Commissions, although it has not commissioned any specific independent or self-certification process to validate this. However, the United Kingdom was on the working group that developed these Principles and the predecessor organisation to the FSA endorsed them.

¹⁸ Such customers include the Chicago Board Options Exchange and NYSE Liffe.

A description of the audit trail evidencing that it captures all relevant data in a timely fashion, including changes to orders, and is securely maintained and available for an adequate time period.

5 All persons that have been authorised to conduct investment business in the United Kingdom are subject to the audit trail and conduct of business rules imposed by the FSA. FSA authorised firms are required to maintain records of any written communication between the firm and its customers concerning regulated business and to retain copies of contract notes, confirmation notes, and exercise notices.

6 LME Rules (see tab 2) set forth similar audit trail requirements – see regulation 9.6 of Part 2 of the LME Rules in particular. All dealings by LME members must be properly documented and then registered with LCH. For every contract traded, LME members must use a specific code indicating the nature of each transaction. Additionally, the LME's IT infrastructure ensures that all material information regarding: (i) the activity of LME participants; (ii) all orders placed, varied or cancelled by LME members; and (iii) all transactions executed by LME members, is recorded, processed and stored in a manner that enables the information to be reviewed by the LME and other entities that have a regulatory interest in the information. Regulation 9 of Part 2 of the LME Rules require LME members to permit access to their premises and to relevant records; the LME member surveillance team exercises these powers during its audit programme as described in Exhibit G-1. In addition pursuant to Regulation 9 of Part 2 of the LME Rules, LME members and are required to forward information about their activity to the LME, and procure their clients to do the same, upon request.

7 All relevant data relating to orders and trades is captured in LMEselect as further set out in the LMEselect user guide at tab 25. This information can be exported by appropriately authorised member users and LME users of LMEselect and therefore retained indefinitely.

Adequate and appropriate trade data is available to users and the public

8 For eight of the eleven metals traded on the LME, the official prices for these metals are the global reference price used the world over by industrial and financial participants for purposes of referencing, hedging, physical settlement, contract negotiations and margining. It is therefore extremely important to the LME that its prices are accessible and that its market is transparent. The LME has a large network of data distributors through which subscribers can access a broad range of LME market data (see tab 28 for details). The LME also publishes pricing information on its website. For an overview of the different types of LME market data that are published see tab 28.

The trading system has demonstrated reliability

9 The technology platform that LMEselect is based on, Tradexpress, is used by various major international exchanges. It was first introduced onto the LME as LMEselect in 2003. Since this time it has been upgraded several times, with each such

upgrade improving the design of the system. In 2011 the availability of LMEselect was 99.94% during its trading hours.

Access to the trading system is secure and protected

10 Access to LMEselect via the FIX API is only permitted through a secure, private network operated by the LME. Access to LMEselect via the GUI is available over the internet; therefore, the LMEselect GUI uses an encrypted, certificate-based security protocol to mitigate the risk of any security breaches. The LME's ongoing information security programme monitors the risks related to access to LMEselect system on an ongoing basis.

There are adequate provisions for emergency operations and disaster recovery

11 As noted in Exhibit D-1, the LME has robust business continuity and disaster recovery plans and procedures for all of its business operations. The FSA regularly reviews the LME's business continuity and disaster recovery procedures.

Trading data is backed up to prevent loss of data

12 All LMEselect system data is backed up on a daily basis and stored off site; additionally, LMEselect current data is housed in two geographically separate data centres which are synchronised in real-time, providing a real-time backup of critical data.

Mechanisms are available to ensure that only those futures, option or swap contracts that have been identified to the Commission as part of the application or permitted to be made available for trading by direct access pursuant to the procedures set forth in § 48.10 are made available for trading by direct access

13 LMEselect only permits trading of LME contracts that comply with the specifications set out in the LME Rules. It is not possible to trade a non-standard LME contract, or a contract based on some other underlying, on LMEselect. In any event, all new contracts must be approved by the LME regulation and compliance team prior to commencing trading on LMEselect or in any other LME venue. The approval process is performed by the LME regulation and compliance team. The process includes activities such as capturing the intended contract in the LME Rules and liaising with the relevant regulatory and constitutional bodies to obtain all necessary approvals.

Mechanisms are available that ensure a competitive, open, and efficient market and mechanism for executing transactions

14 In addition to the level playing field between members described at paragraph 25 of Exhibit D-1 and the fair matching algorithm described at paragraphs 1 to 3 of Exhibit D-2, there are various mechanisms in place within the LME to ensure a competitive, open and efficient market and mechanism for executing transactions.

15 One such mechanism is that price discovery for the official prices and closing prices takes place on the ring, via open outcry trading, not on LMEselect. As such, orders on LMEselect can be validated against the prices discovered on the ring.

16 A further mechanism is the Special Committee. Regulation 15 of Part 3 of the LME Rules sets out the powers of the Special Committee. By way of overview, it is empowered to deal with undesirable situations which have or are likely to affect the market. Its powers include the ability to require members to trade out or reduce their net trading position and the ability to suspend or order a cessation of trading. Further information on the Special Committee is set out in Exhibit G-1.

17 The LME also has robust incident management procedures. In the event of a system or infrastructure failure of significance, the LME has a robust incident management process which would be invoked. This could include, if necessary, the deactivation of the order book. The market would be re-opened at a later date following the procedures that are followed at the start of a normal trading day. Prior to the resumption of trading, members would be informed that trading would begin anew in a specific period of time and members would be provided with the opportunity to delete their orders.

**EXHIBIT E – THE TERMS AND CONDITIONS OF CONTRACTS
PROPOSED TO BE MADE AVAILABLE IN THE UNITED STATES**

Exhibit E-1

A description of the terms and conditions of futures, option or swap contracts intended to be made available for direct access. With respect to each contract, indicate whether the contract is regulated or otherwise treated as a futures, option or swap contract in the regulatory regime(s) of the foreign board of trade's home country.

LME Submission: Exhibit E-1

1 The terms and conditions for futures contracts are set out at Parts 4 and 6 of the LME Rules at tab 2. LME futures contracts are regulated as futures by the UK's regulatory regime.

2 The terms and conditions for traded options contracts are set out at Parts 4 and 5A of the LME Rules at tab 2. LME traded options contracts are regulated as options by the UK's regulatory regime.

3 The terms and conditions for Traded Average Price Options are set out at Parts 4 and 5B of the LME Rules at tab 2. LME Traded Average Price Options are regulated as options by the UK's regulatory regime.

4 The terms and conditions for the LMEX are set out at Parts 4 and 6A of the LME Rules at tab 2 and the terms and conditions for options on the LMEX are set out at Parts 4 and 6C of the LME Rules at tab 2. The LMEX is an index contract and is regulated as a contract for differences by the UK's regulatory regime. An option on the LMEX is regulated as an option by the UK's regulatory regime.

5 The terms and conditions for LMEminis are set out at Parts 4 and 6B of the LME Rules at tab 2. LME mini contracts are regulated as futures by the UK's regulatory regime.

6 The terms and conditions for LMEswaps are set out at Parts 4 and 11 of the LME Rules at tab 2. LMEswaps are average price futures and are regulated as contracts for differences by the UK's regulatory regime.

7 Regulation 1.5 of Part 3 of the LME Rules (at tab 2) provides that the general regulations of the LCH (see tab 3) also apply to all LME contracts.

**EXHIBIT E – THE TERMS AND CONDITIONS OF CONTRACTS
PROPOSED TO BE MADE AVAILABLE IN THE UNITED STATES**

Exhibit E-2

Demonstrate that the contracts are not prohibited from being traded by United States persons, i.e., the contracts are not prohibited security futures or single stock contracts or narrow-based index contracts. For non-narrow based stock index futures contracts, demonstrate that the contracts have received Commission certification pursuant to the procedures set forth in § 30.13 and Appendix D to part 30 of this chapter.

LME Submission: Exhibit E-2

1 All LME contracts are either futures, options or contracts for differences based on the physical delivery of, or the changes in volume of, the eleven base metals traded on the LME. No LME contract is based on a security or has any component based on the volume of a security. LME contracts are therefore not prohibited security futures, single stock contracts or narrow-based index contracts.

**EXHIBIT E – THE TERMS AND CONDITIONS OF CONTRACTS
PROPOSED TO BE MADE AVAILABLE IN THE UNITED STATES**

Exhibit E-3

Demonstrate that the contracts are required to be cleared.

LME Submission: Exhibit E-3

1 Paragraphs 17 to 19 of Exhibit A-1 set out that Exchange Contracts are cleared by the LCH but Client Contracts are not. Regulations 3.9 to 3.12 of Part 3 of the LME Rules set out this requirement (see tab 2).

**EXHIBIT E – THE TERMS AND CONDITIONS OF CONTRACTS
PROPOSED TO BE MADE AVAILABLE IN THE UNITED STATES**

Exhibit E-4

Identify any contracts that are linked to a contract listed for trading on a United States-registered entity, as defined in section 1a(40) of the Act. A linked contract is a contract that settles against any price (including the daily or final settlement price) of one or more contracts listed for trading on such registered entity.

LME Submission: Exhibit E-4

- 1 No LME contracts are linked contracts as defined in the Act.

**EXHIBIT E – THE TERMS AND CONDITIONS OF CONTRACTS
PROPOSED TO BE MADE AVAILABLE IN THE UNITED STATES**

Exhibit E-5

Identify any contracts that have any other relationship with a contract listed for trading on a registered entity, i.e., both the foreign board of trade's and the registered entity's contract settle to the price of the same third party-constructed index.

LME Submission: Exhibit E-5

1 No LME contracts have any other relationship with a contract listed for trading on another registered entity.

**EXHIBIT E – THE TERMS AND CONDITIONS OF CONTRACTS
PROPOSED TO BE MADE AVAILABLE IN THE UNITED STATES**

Exhibit E-6

Demonstrate that the contracts are not readily susceptible to manipulation. In addition, for each contract to be listed, describe each investigation, action, proceeding or case involving manipulation and involving such contract in the three years preceding the application date, whether initiated by the foreign board of trade, a regulatory or self-regulatory authority or agency or other government or prosecutorial agency. For each such action, proceeding or case, describe the alleged manipulative activity and the current status or resolution thereof.

LME Submission: Exhibit E-6

Susceptibility to manipulation

1 LME contracts are not readily susceptible to manipulation. The LME market surveillance function ensures this is the case. A detailed overview of the LME market surveillance function is set out in Exhibit G.

2 The measures taken by the LME to prevent manipulation are twofold: (i) The inherent design features of the contracts; and (ii) The active, daily control of positions for all live contracts.

Contract design

3 The LME aims to develop contracts that will provide the metals trade and industry with a global reference price. In order to achieve this status, both producers and consumers of these metals must have confidence in the prices established by these contracts. The inherent design features of LME contracts that instill confidence in industrial users of these contracts are:

(a) Physical settlement: LME contracts are based on physical settlement by the transfer of ownership of metal stored in listed warehouses; this guarantees price convergence as the far futures prompt (settlement) dates converge on the cash settlement date (*i.e.*, two days forward). The ability to make or take delivery of metal against an LME futures contract on the settlement date is designed to prevent any divergence between the LME settlement price and the physical metal price.

(b) Global reach: The LME has a global network of listed delivery locations in Europe, Asia and North America that are in areas of net consumption or transshipment ports that are conduits to areas of net consumption. As a result, local supply or demand issues will not cause price divergence as would be the case if a contract was only deliverable in a single jurisdiction or region.

(c) Contract specifications: LME listed brands represent a significant proportion of the physically traded metal. For example, LME listed grade A copper brands represented 60% of world production capacity for grade A cathodes in 2010. This creates the widest liquidity for delivery against LME contracts with the resultant reduction in the scope for artificial supply squeezes. The LME metal committees, which comprise of a broad range of industry representatives, advise on the specifications for LME contracts which LME listed brands must accord to. This ensures that LME contracts reflect changes in physically traded metal.

4 The LME does not launch new contracts very often. The gestation process for a new contract can be long. For example, the LME researched the steel market for five years before deciding that steel billet would be the most appropriate basis for a steel price discovery contract. Contracts are designed by combining the experience and resources of the LME commercial team (which canvasses the requirements of the physical trade and industry) the LME physical operations department (which understands the brand listing and warehousing requirements) and the LME compliance department (which understands the requirements for orderly and fair

markets). The LME compliance department will then liaise with the FSA with regards to the prospective new contract as part of its close and continuous supervision of the LME. This liaison takes place in advance of the mandatory notification requirement at REC 3.14.2 of the FSA Handbook (tab 16) pursuant to which Recognised Investment Exchanges are obliged to notify the FSA of prospective new products at the same time as notifying its members. As part of liaison with the FSA, the FSA requires the LME to demonstrate why it believes that trading in the new contract will be orderly and fair. The LME will receive a non-objection confirmation prior to formally launching the new contract.

Position controls

5 As the LME has daily settled contracts, necessitating monitoring of individual customers entire positions each and every trading day. Having a settlement point every day means that squeezes could potentially occur very quickly (compared to a single settlement point per month/quarter). The LME market surveillance function receives daily reports from its members that set out positions for each prompt date down to one lot for each of the members' house and client accounts. The LME is able to aggregate positions held across more than one member. See paragraph 8 of Exhibit G-1 for further detail as to the reporting of this information.

6 The LME utilises "the Lending Guidance", a specific part of the LME Rules designed to prevent delivery squeezes, to ensure that its markets cannot be easily manipulated. A copy of the Lending Guidance is set out at tab 14 (see Notice 11/293). The principle of the Lending Guidance is that if a market user holds a dominant long position, this holder must lend to other market participants at pre-defined levels should they be called upon so that the shorts can get out of their position at a reasonable rate. Positions belonging to accounts that are connected or affiliated with one another are aggregated for the purpose of position monitoring and complying with the Lending Guidance. Members of the LME are required by the LME Rules to disclose all connected accounts to the LME market surveillance function. The LME has the right to aggregate positions if it considers multiple account holders to have a common purpose.

7 The levels at which the Lending Guidance is activated are pre-defined and transparent to the market. These are for position holders holding stock and the two nearest dated contracts (for settlement tomorrow and the day after) where the total stock and positions are between 50 and 80% of the warrant/tom/cash positions ("WTC") to lend back at no more than 0.5% premium on the cash price for the previous trading day, for those holding 80-90% WTC at no more than 0.25% premium on the cash price for the previous trading day, and for those above 90% of WTC at level to the cash price for the previous trading day. The below table sets out the frequency with which the Lending Guidance is issued / invoked.

Lending Guidance statistics 02.08.10 to 31.01.12

Metal	Number of times Guidance issued (i.e., where party notified by LME that as it holds > 50% of stock , it should be prepared to lend if asked)	Number of times Guidance invoked (i.e., where a party lent TOM/Next or Stock back into the market, e.g. reducing its position)	% invoked
AA	315	86	27.30%
AH	14	4	28.57%
CA	49	1	2.04%
FM	128	30	23.44%
NA	285	0	0.00%
NI	257	0	0.00%
PB	113	51	45.13%
SN	97	0	0.00%
ZS	47	0	0.00%
SUM	1305		

8 The LME market surveillance team monitors these positions on a daily basis and ensures that those entities that hit the pre-defined levels actively lend back into the market as required. The team monitors dominance based on the aggregate positions of all affiliated/connected accounts as determined by the LME.

9 The LME will relay to the FSA on a real-time basis should there be any incidences of market participants not adhering to LME requirements, and the action that is to be taken under the LME Rules. A member must comply with the Lending Guidance at all times. Guidance is confirmed by telephone at 9.00am each day when the LME stock figures are published. The LME also has powers under the LME Rules to enforce lending by customers of the market, to close out positions or cancel warrants in the event that the market participant doesn't adhere to the Lending Guidance, and has the ultimate sanctions of suspending or removing membership.

10 The LME also provides to the FSA position information at the regular monthly meetings¹⁹, noting those entities that hit the pre-defined levels of dominance in terms of positions, and whether they were required to lend out to the market. The FSA also receives as context, information around stock and price levels for key contracts of note that month.

¹⁹ See Exhibit F for an overview of the FSA's monitoring regime.

Investigations, actions and proceedings

11 There has been an investigation, action and proceeding involving suspected manipulation of an LME market in the last three years. This matter resulted in a judgement from the Upper Tribunal of the Financial Services and Markets Tribunal and a Decision Notice from the FSA. The judgement and Decision Notice (case name Jason Geddis v the Financial Services Authority) are attached at tab 29. In this case the alleged manipulative activity was a failure to adhere to the Lending Guidance. The outcome of these proceedings is set out in the judgement and Decision Notice.

12 The LME separately instituted disciplinary proceedings against the relevant member in relation to this matter on the grounds that that member failed to comply with the Lending Guidance in the LME lead market on 21 November 2008, in breach of regulation 16.3 of Part 3 of the LME Rules. Subsequent to the institution of proceedings, the LME and the relevant member agreed a settlement in which the relevant member agreed to pay a fine of £150,000. In agreeing to the settlement and a reduced fine, the LME took into account two factors: that the relevant member took prompt action on the day to mitigate the effects of its breach; and that the relevant member co-operated fully with the LME and did not contest the charges. Notice 09/001 published details of this settlement; this Notice can be found at tab 29.

EXHIBIT F – THE REGULATORY REGIME GOVERNING THE FOREIGN BOARD OF TRADE IN ITS HOME COUNTRY OR COUNTRIES

With respect to each relevant regulatory regime or authority governing the foreign board of trade, attach, as **Exhibit F**, the following (including, where appropriate, an indication as to whether the applicable regulatory regime is dependent on the home country's classification of the product being traded on the foreign board of trade as a future, option, swap, or otherwise, and a description of any difference between the applicable regulatory regime for each product classification type):

- (1) A description of the regulatory regime/authority's structure, resources, staff, and scope of authority; the regulatory regime/authority's authorizing statutes, including the source of its authority to supervise the foreign board of trade; the rules and policy statements issued by the regulator with respect to the authorization and continuing oversight of markets, electronic trading systems, and clearing organizations; and the financial protections afforded customer funds.
- (2) A description of and, where applicable, copies of the laws, rules, regulations and policies applicable to:
 - (i) The authorization, licensure or registration of the foreign board of trade.
 - (ii) The regulatory regime/authority's program for the ongoing supervision and oversight of the foreign board of trade and the enforcement of its trading rules.
 - (iii) The financial resource requirements applicable to the authorization, licensure or registration of the foreign board of trade and the continued operations thereof.
 - (iv) The extent to which the IOSCO Principles are used or applied by the regulatory regime/authority in its supervision and oversight of the foreign board of trade or are incorporated into its rules and regulations and the extent to which the regulatory regime/authority reviews the applicable trading systems for compliance therewith.
 - (iv) The extent to which the regulatory regime/authority reviews and/or approves the trading rules of the foreign board of trade prior to their implementation.
 - (v) The extent to which the regulatory regime/authority reviews and/or approves futures, option or swap contracts prior to their being listed for trading.
 - (vii) The regulatory regime/authority's approach to the detection and deterrence of abusive trading practices, market manipulation, and other unfair trading practices or disruptions of the market.

- (3) A description of the laws, rules, regulations and policies that govern the authorization and ongoing supervision and oversight of market intermediaries who may deal with members and other participants located in the United States participants, including:
 - (i) Recordkeeping requirements.
 - (ii) The protection of customer funds.
 - (iii) Procedures for dealing with the failure of a market intermediary in order to minimize damage and loss to investors and to contain systemic risk.
- (4) A description of the regulatory regime/authority's inspection, investigation and surveillance powers; and the program pursuant to which the regulatory regime/authority uses those powers to inspect, investigate, and enforce rules applicable to the foreign board of trade.
- (5) For both the foreign board of trade and the clearing organization (unless addressed in Supplement S-1), a report confirming that the foreign board of trade and clearing organization are in regulatory good standing, which report should be prepared subsequent to consulting with the regulatory regime/authority governing the activities of the foreign board of trade and any associated clearing organization. The report should include:
 - (i) Confirmation of regulatory status (including proper authorization, licensure and registration) of the foreign board of trade and clearing organization.
 - (ii) Any recent oversight reports generated by the regulatory regime/authority that are, in the judgment of the regulatory regime/authority, relevant to the foreign board of trade's status as a registered foreign board of trade.
 - (iii) Disclosure of any significant regulatory concerns, inquiries or investigations by the regulatory regime/authority, including any concerns, inquiries or investigations with regard to the foreign board of trade's arrangements to monitor trading by members or other participants located in the United States or the adequacy of the risk management controls of the trading or of the clearing system.
 - (iv) A description of any investigations (formal or informal) or disciplinary actions initiated by the regulatory regime/authority or any other self-regulatory, regulatory or governmental entity against the foreign board of trade, the clearing organization or any of their respective senior officers during the past year.
- (6) For both the foreign board of trade and the clearing organization (unless addressed in Supplement S-1), a confirmation that the regulatory

regime/authority governing the activities of the foreign board of trade and the clearing organization agree to cooperate with a Commission staff visit subsequent to submission of the application on an “as needed basis,” the objectives of which will be to, among other things, familiarize Commission staff with supervisory staff of the regulatory regime/authority; discuss the laws, rules and regulations that formed the basis of the application and any changes thereto; discuss the cooperation and coordination between the authorities, including, without limitation, information sharing arrangements; and discuss issues of concern as they may develop from time to time (for example, linked contracts or unusual trading that may be of concern to Commission surveillance staff).

LME Submission: Exhibit F

1 The LME is subject to a comprehensive regulatory regime in the United Kingdom and Europe. This regulatory structure includes: financial and other fitness criteria for members of the LME; reporting and record-keeping requirements; procedures governing the treatment of customer funds and property; conduct of business standards; provisions designed to protect the integrity of the markets; and statutory prohibitions on fraud, abuse and market manipulation.

2 Responsibility for financial services legislation and broad policy in the United Kingdom lies with Her Majesty's Treasury, which is answerable to Parliament. Responsibility for regulating the conduct of investment business, providing investor protection and preventing market manipulation in the United Kingdom rests with the FSA. Additional authority rests with the United Kingdom's Department of Business, Innovation and Skills which is responsible for modernising company law and reforming corporate governance and investigates the conduct of companies and the Serious Fraud Office which investigates and prosecutes serious and complex fraud, bribery and corruption and so maintains confidence in the probity of business and financial services in the United Kingdom.

3 The applicable regulatory regime for the United Kingdom is not dependent on the home country's classification of the product being traded on the foreign board of trade as a future, option, swap (*i.e.*, contract for differences), which are all negotiated instruments, or otherwise. The principal legal provisions for investor protection in the United Kingdom's financial services sector are contained in, or derived from, the UK Financial Services and Markets Act 2000 ("FSMA") and the FSA fulfils its regulatory responsibilities within the framework established by that Act and related legislation²⁰.

The Financial Services Authority

4 The FSA is an independent non-governmental body, given statutory powers by FSMA. It is a company limited by guarantee (registered in England and Wales with number 1920623) whose registered office is at 25 The North Colonnade, Canary Wharf, London, England, E14 5HS.

5 As a non-governmental body, the FSA is operationally independent of government. It is accountable to the ministers within Her Majesty's Treasury and through the Ministers in this department, to Parliament. It is also subject to the scrutiny of the National Audit Office, Treasury Select Committee and Parliamentary Accounts Committee.

Structure

6 The board of the FSA sets its overall policy. Board members are appointed by the Treasury. Details of the Board members are set out at tab 30a. The majority of the Board members are non-executive. The non-executive directors check that the FSA operates efficiently and economically they oversee the FSA's mechanisms of financial control and set the pay of the executive members of the Board. Terms of reference for

²⁰ There is a Parliamentary process underway which may realign regulatory responsibilities amongst Her Majesty's Government. At this stage no significant changes are expected to the regulatory regime applicable to the LME.

the board of the FSA and its various committees are set out at tab 30b. Details on which matters the FSA board delegates to its committees, and those that it retains decision making responsibilities for, are set out at tab 30c and an organisation chart is at tab 30d.

7 General strategic and policy matter decisions are taken by FSA Board and/or its Executive Committee. Other major regulatory decisions (including appeals in respect of disciplinary matters and warning) are taken, on behalf of the FSA board, by the Regulatory Decisions Committee which comprises current and recently retired practitioners and non-practitioners, all of whom represent the public interest. Terms of reference for the Regulatory Decisions Committee are set out at tab 30b.

8 FSMA establishes the Financial Services and Markets Tribunal, run by the Department of Constitutional Affairs (not Her Majesty's Treasury). This Tribunal considers afresh regulatory decisions in cases where the FSA cannot reach an agreement with the firm or individual concerned.

9 The FSA's rules and practices are also subject to competition scrutiny by the Office of Fair Trading ("OFT"). The OFT must report to the Competition Commission (a separate non-governmental body with specific powers to ensure healthy competition within the United Kingdom) if it finds that any of the FSA rules and practices have a significant anti-competitive effect.

Resources

10 The FSA is an independent body which does not receive any funding from Her Majesty's Government. To finance its work, the FSA charges fees to the entities that it regulates including The London Metal Exchange Limited.

11 The general powers of the FSA to raise these fees are set out in Schedule 1, Part III, paragraph 17 of FSMA. FSMA also gives the FSA the power to maintain sufficient reserves. The FSA fee policy is set out at tab 30e. The latest annual report of the FSA is set out at tab 30f; funding for 2011/12 is £492 million.

Staff

12 The FSA currently has 4,000 full time equivalent staff (source: FSA annual report 2010/11 at tab 30f). Staffing represents the highest cost to the FSA. It plans to deliver its 2011/12 priorities with its headcount capped at current levels.

Scope of authority

13 The FSA has four specific, and equal, objectives set by Parliament. These are: maintaining market confidence; contributing to the protection and enhancement of the stability of the UK financial system; securing the appropriate degree of protection for consumers; and reducing financial crime. In practice, this means that the FSA wants to make markets work effectively to deliver benefits to firms and consumers.

14 The FSA regulates some 29,000 firms, which includes European Economic Area firms passporting into the United Kingdom, ranging from global investment banks to very small businesses, and around 165,000 individuals. It operates a risk-based approach concentrating on the big risks and accepting that some failure neither can, nor should, be avoided. Potential risks are prioritised, using impact and probability analysis, and the FSA will then decide on an appropriate regulatory

response – in other words, what approach it will take and how much resource it will allocate to mitigating risk.

15 The FSA’s risk-based regulatory approach is known as “ARROW II”. It is designed to identify the main risks to its statutory objectives as they arise and to help it plan how to address these risks. This process involves drawing on a wide range of sources, including intelligence gathering while supervising firms, contacting consumers directly and monitoring markets and the economy. The FSA uses this information to assess the level of risk posed to its statutory objectives and to decide on what approach is needed (if any) to mitigate risk.

Authorizing statutes

16 The FSA was created by the FSMA, the primary piece of legislation from which the FSA derives its powers and functions. Rules and guidance made in the FSA Handbook are made by powers found in FSMA.

17 Her Majesty’s Treasury has the power to enact secondary legislation under FSMA, which affects the way the FSA operates. The most important piece of secondary legislation is the Financial Services and Markets Act (Regulated Activities) Order 2001 (“RAO”). The RAO sets out the specific activities for which firms must receive FSA permission (known as a Part IV permission) to carry on investment business (see paragraph 20 for further detail), or where they can avail themselves of an exemption or exclusion, as the case may be.

18 The FSA is the designated competent authority under the European single market directives for banking, insurance, investment business, payment services, collective investment schemes and other financial services, including insurance intermediation. It is also the competent authority under a host of other EU directives, including the Market Abuse and Prospectus Directives. As a result, it is the United Kingdom representative within the relevant EU regulatory bodies such as the European Securities and Markets Authority. European legislation affecting the FSA in regulated financial services is implemented through the FSA Handbook and/or Her Majesty’s Treasury regulations.

19 Other main areas of FSA regulation include personal pension schemes and activities relating to regulated mortgage contracts. It has authorisation, enforcement, supervision and rule-making functions for firms. It also has registration functions under the various pieces of legislation applicable to mutual societies and related functions under other legislation applicable to financial services and listing. FSMA also provides the FSA with powers over unregulated firms and persons regarding market abuse, breaches of money laundering regulations and short selling. It also has the power to prosecute unauthorised firms or persons carrying on regulated activities.

Source of its authority to supervise the foreign board of trade

20 The LME is a Recognised Investment Exchange (“RIE”) in accordance with section 285 of FSMA. As an RIE, the LME is exempt from the general prohibition as respects any “regulated activity”²¹ which is carried on as part of the LME’s business as an investment exchange²².

²¹ FSMA defines regulated activities to include, among other things, (1) buying, selling, subscribing for or underwriting securities or contractually based investments as principal and (2) making arrangements

21 To acquire and maintain recognition status as an RIE, the LME must satisfy several statutorily-prescribed recognition requirements set out in the Financial Services and Markets Act 2000 (Recognition Requirements for Investment Exchanges and Clearing Houses) Regulations 2001 as amended by the Financial Services and Markets Act 2000 (Recognition Requirements for Investment Exchanges and Clearing Houses) (Amendment) (Regulations) 2006 (the “Recognition Requirements”). These Recognition Requirements are attached at tab 16. The LME must continue to fulfil these obligations to maintain its recognition status. Among other things, the LME is required to:

- have systems and controls in place to monitor transactions on the LME;
- retain sufficient financial resources for the performance of its functions as an RIE;
- operate its markets with due heed to the protection of investors;
- ensure that trading is conducted in an orderly and fair manner;
- maintain suitable arrangements for trade reporting;
- maintain suitable arrangements for the clearing and settlement of contracts;
- monitor compliance with its rules;
- enforce its rules;
- investigate complaints with respect to its business;
- maintain rules to deal with the default of its members;
- co-operate with other regulatory bodies through the sharing of information or otherwise²³;
- maintain high standards of integrity and fair dealing; and
- prevent abuse.

22 A copy of the order dated 25 April 1988 by the FSA’s predecessor organisation, the Securities and Investments Board, declaring The London Metal Exchange Limited to be an RIE is attached at tab 30g. The recognition status of RIEs that were recognised by predecessor organisations were grandfathered when the FSA was established in 2001. The London Metal Exchange Limited remains compliant with the Recognition Requirements as demonstrated by its continued status as an RIE.

23 The FSA has provided guidance on the Recognition Requirements in its Handbook that sets out the FSA’s interpretation of how those obligations might be met in practical terms. This guidance is attached at tab 16 (see FSA Handbook (REC)).

for another person (whether as principal or agent) to buy, sell, subscribe for or underwrite a particular investment which is a security or a contractually based investment.

²² FSMA prohibits individuals and entities from carrying on a “regulated activity” in the United Kingdom unless they are “authorised” to do so or are eligible for an exemption from the authorisation requirement. See the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 at tab 16 for further details. FSMA imposes criminal sanctions on persons who violate this requirement.

²³ An RIE’s obligation to co-operate with regulatory bodies is not limited to co-operation with regulatory authorities in the United Kingdom. The Recognition Requirements require an RIE to be able and willing to cooperate, by the sharing of information or otherwise, with an overseas state regulator.

24 The FSA is the authority charged with ensuring that RIEs (such as The London Metal Exchange Limited) continue to comply with the recognition criteria. The FSA has the power to direct any RIE that is failing, or had failed, to comply with the recognition requirements to take action to remedy such non-compliance. It also has the power to de-recognise any RIE that fails to meet the statutory recognition requirements. Accordingly, the LME is subject to the oversight of the FSA.

25 The FSA exercises its supervisory responsibility by conducting an ongoing assessment of whether the LME's rules, procedures and practices are adequate for the protection of investors and for the maintenance of an orderly market in accordance with the Recognition Requirements (see REC 4 of the FSA Handbook at tab 16). For this purpose the FSA requires the LME to report to it, among other things, financial information and changes in its constitution (see REC 3 of the FSA Handbook at tab 16). Further, the LME keeps the FSA notified of significant changes to its rules or procedures before such changes become effective.

26 The formal interaction structure between the LME and FSA includes (a) monthly meetings between the FSA and the LME compliance department; (b) bi-monthly meetings between the FSA and the LME chief technology officer; (c) quarterly meetings between the FSA and the LME chief executive; (d) half-yearly meetings between the FSA and the LME physical operations department; (e) half-yearly meetings between the FSA and the LME floor-trading department; and (f) half-yearly meetings between the FSA and the LME independent board directors, including the Chairman of the LME. Informally there are frequent ad hoc contacts between the FSA and the LME. In addition to the formal requirements on the LME to notify the FSA, the LME consults with the FSA on all material matters.

Rules and policy statements

27 The FSA Handbook is the primary source of rules and policy statements issued by the FSA with respect to the authorisation and continuing oversight of markets, electronic trading systems and clearing organisations. A copy of the full FSA Handbook is available at <http://fsahandbook.info/FSA/index.jsp>. The key rules and policy statements relevant to the LME are set out at tab 16.

Financial protections afforded customer funds

28 The FSA (and other home state regulators in jurisdictions where the LME has access) are responsible for regulating the financial soundness and conduct of LME members' business.

29 The Client Asset ("CASS") section of the FSA Handbook at tab 16 sets out the requirements on authorised firms in relation to customer funds. These include requirements such as segregation of customer funds from a firm's own funds and the rules around the distribution of client money in the event that a registered firm (or third party who holds money on behalf of a registered firm) fails.

Authorization, licensure or registration of the foreign board of trade

30 See paragraphs 20 to 26 above for the background to the RIE regime, the formal approval of the LME as an RIE and how the FSA regulates the LME.

31 The LME takes its compliance and regulatory activities and obligations extremely seriously. The LME has a statutory obligation to ensure that business conducted by means of its facilities is conducted in an orderly manner and so as to afford proper protection to investors. Failure to comply with this obligation may mean the LME ceasing to be an RIE and therefore ceasing to be allowed to operate an exchange under FSMA.

32 The FSA expects the Audit & Risk Committee of the LME, on behalf of the board of The London Metal Exchange Limited, to satisfy itself formally on an annual basis that the LME continues to meet its requirements as a RIE. In order to assist the Audit & Risk Committee in this process, a checklist has been developed, listing all of the Recognition Requirements and, for each, identifying the systems, procedures and policies in place to demonstrate how each requirement has been met. The schedule attached at tab 30h was reviewed and approved by the Executive Committee of the LME and, based on its review, it was content that the LME continued to meet the Recognition Requirements. The Audit & Risk Committee, having considered the schedule, concluded that the LME continued to meet the Recognition Requirements. This schedule was then shared with the FSA.

The regulatory regime/authority’s program for the ongoing supervision and oversight of the foreign board of trade and the enforcement of its trading rules

33 See paragraphs 13 to 15 above for an overview of the FSA approach to risk management. Also see paragraphs 20 to 26 and 30 to 32 above for details of the supervision and oversight of the LME and enforcement of its trading rules by the FSA. Its approach to regulating the LME is described as “close and continuous” (see paragraphs 50 and 51 below for further information on this description and paragraph 26 above for what this means in practice).

The financial resource requirements applicable to the authorization, licensure or registration of the foreign board of trade and the continued operations thereof

34 The Recognition Requirements specify that the LME must have financial resources sufficient for the proper performance of its functions as an RIE. In considering whether this requirement is satisfied, the FSA must take into account all the circumstances, including the LME’s connection with any person, and any activity carried on by the LME, whether or not it is an exempt activity.

35 The FSA has adopted guidance in the FSA Handbook which elaborates on the Recognition Requirements. This guidance sets out principles which the FSA will take into account to determine if the above requirement has been satisfied. This guidance states that, after allowing for the financial resources necessary to cover counterparty and market risks, the LME must have at any time liquid assets of at least six months’ operating costs and net capital of at least this amount (REC 2.3.7 at tab 16).

36 The calculation of operating costs may exclude non-cash costs (costs that do not involve the outflow of funds) and variable costs of the LME’s business that would not be incurred if no “exempt activities”²⁴ were performed (REC 2.3.8 at tab 16).

²⁴ Exempt activities are any regulated activity (see footnote 17) in respect of which the body is exempt from the general prohibition (see footnote 18) as a result of section 285(2) or (3) of FSMA.

37 Since the introduction of this requirement the FSA has developed further supervisory practices in this area. In particular, the FSA has made supervisory arrangements with the LME intended to ensure that the FSA can monitor the headroom provided by the actual financial resources of the LME, relative to the financial resources requirement (known as the “liquidity buffer”). Pursuant to the liquidity buffer, the FSA would expect to supervise the LME more intensively if its financial resources provided less than one and a half times cover of its financial resources requirement. This gives the FSA the ability to intervene at an early stage, if it were to identify a downward trajectory in the financial position of the LME.

The extent to which the IOSCO Principles are used or applied by the regulatory regime/authority in its supervision and oversight of the foreign board of trade or are incorporated into its rules and regulations and the extent to which the regulatory regime/authority reviews the applicable trading systems for compliance therewith.

38 The United Kingdom was on the working group that developed these Principles and the predecessor organization to the FSA endorsed them. The FSA has bimonthly meetings with the LME Chief Technology Officer in which LMEselect is routinely discussed. The LME also consults with the FSA on all material matters.

The extent to which the regulatory regime/authority reviews and/or approves the trading rules of the foreign board of trade prior to their implementation.

39 The Recognition Requirements specify that the LME must ensure that appropriate procedures are adopted for it to make rules, for keeping its rules under review and for amending them. The FSA has adopted guidance in the FSA Handbook which elaborates on the Recognition Requirements. This guidance sets out principles which the FSA will take into account to determine if the above requirement has been satisfied. This guidance is set out at REC 2.14 of the FSA Handbook at tab 16.

40 Pursuant to section 293(5) of FSMA (set out tab 16), whilst there is no formal approval requirement for rules, if the LME alters or revokes any of its rules or guidance, or makes new rules or guidance, or makes new rules or issues new guidance it must give written notice to the FSA. Further, the combination of a legal requirement to consult on rule changes, and the close and continuous nature of the supervisory interaction with RIEs means that, in practice, the FSA is aware of all proposed rule changes well before they are made, and if there is a regulatory concern, then this will be built into the formulation of those rules. For example as part of the monthly meetings between the FSA and the LME compliance department referenced at paragraph 26 above, the LME notifies the FSA of any forthcoming changes to the LME Rules that relate to trading rules of the LME. The FSA receives copies of consultation notices issued by the LME. In fact, the FSA receives copies of all Notices issued by the LME. Should the FSA wish to review proposed changes to the LME Rules, it will request further information from the LME, which the LME will provide. In such instances, the FSA and the LME will work closely to produce a form of wording that is acceptable to both entities. In addition, section 300A of FSMA (introduced by the Investment Exchanges and Clearing House Act 2006) gives further powers to the FSA in respect of rules which may amount to an “excessive regulatory

provision”, requiring a formal notification process and right for the FSA to disallow any such rules.

The extent to which the regulatory regime/authority reviews and/or approves futures, option or swap contracts prior to their being listed for trading.

41 The Recognition Requirements specify that the LME must make appropriate arrangements for relevant information to be made available to persons engaged in dealing in specified investments on the LME and that the proposed contracts are capable of being traded in a fair, orderly and efficient manner. The FSA has adopted guidance in the FSA Handbook which elaborates on the Recognition Requirements. This guidance sets out principles which the FSA will take into account to determine if the above requirement has been satisfied. This guidance is set out at REC 2.12 of the FSA Handbook at tab 16.

42 The close and continuous nature of the supervisory interaction with RIEs means that, in practice, the FSA is aware of all proposed new contracts well before they are admitted to trading, and if there is a regulatory concern, then this will be built into the formulation of the contract specifications at that time. For example, as part of the monthly meetings between the FSA and the LME compliance department referenced at paragraph 26 above, the LME notifies the FSA of any forthcoming contracts prior to their being listed for trading. The LME must confirm in writing to the FSA that any new contract will comply with the Recognition Requirements and must provide background information supporting the LME’s view that it will be able to operate an orderly market in that new contract. The FSA will then perform an internal review and provide its non-objection ahead of launch, once it is comfortable all regulatory aspects have been considered and any risks mitigated.

The regulatory regime/authority’s approach to the detection and deterrence of abusive trading practices, market manipulation, and other unfair trading practices or disruptions of the market.

43 In the United Kingdom the primary term used to describe abusive trading practices, market manipulation and other unfair trading practices or disruptions of the market is “market abuse”. In December 2001 the provisions of FSMA relating to market abuse came into force. FSMA prohibited market abuse and gave the FSA the power to issue unlimited fines to penalise market abuse, subject to a right of appeal to the Financial Services and Markets Tribunal.

44 FSMA, as originally enacted, set out three types of market abuse: misuse of non-public material information, the creation of false or misleading market impressions and market distortion. FSMA required the FSA to publish a code describing behaviour which, in its opinion, amounts to market abuse and behaviour which does not. This code (“Code of Market Conduct”) was implemented on 1 December 2001.

45 In addition to legislation originating from the United Kingdom, the LME is subject to European Union legislation. The European Market Abuse Directive (see tab 16) is one of a number of initiatives implementing the Financial Services Action

Plan²⁵. The aim of the Market Abuse Directive is to promote clean and efficient markets which are regulated in a harmonised way throughout Europe. The United Kingdom had to amend the pre-existing parts of FSMA and the Code of Market Conduct as a result of the Market Abuse Directive. The manner in which these revisions took place means that in certain areas, there is a dual system of regulation, with the United Kingdom and Europe having different regimes that operate simultaneously.

46 The result of this dual system of regulation is that there are now seven types of behaviour that can amount to market abuse for the purpose of FSMA. These seven different types of behaviour, the interlinking definitions in FSMA and the Market Abuse Directive, along with the current proposals within Europe to revise the Market Abuse Directive are described in detail in the document attached at tab 30j²⁶.

47 For commodity derivatives, as traded on the LME, the major threat of market abuse is market manipulation. The steps the LME takes to ensure its markets are not easily manipulated are set out at Exhibit G, and in relation to the Lending Guidance, Exhibit E-6. The FSA can also independently enforce the prohibition on market abuse set out in FSMA and the Market Abuse Directive. In order to ensure there is no duplication of effort between the LME and the FSA, the FSA has published operating arrangement guidelines which clarify how the LME and the FSA will co-ordinate and co-operate in preventing suspected market abuse (see tab 30j).

A description of the laws, rules, regulations and policies that govern the authorization and ongoing supervision and oversight of market intermediaries who may deal with members and other participants located in the United States

48 The United Kingdom has a comprehensive financial services supervision regime. The laws, rules, regulations and policies that govern the authorisation and ongoing supervision and oversight of market intermediaries are primarily set out in FSMA and the FSA Handbook.

49 Of the LME members which have trading rights, and could therefore deal with customers located in the United States, the vast majority are companies incorporated in England and Wales. Irrespective of the jurisdiction of incorporation, no member may undertake any regulated activity in relation to the LME unless it is authorised by the FSA to carry on such regulated activity (see regulation 4.2 of Part 2 of the LME Rules at tab 2). As a result, all of the trading members of the LME must comply with FSA rules and are subject to the supervision and oversight of the FSA.

50 The FSA supervises firms according to the risks they present to its statutory objectives. It assesses risks in terms of their impact (the scale of the effect these risks will have on consumers and the market if they were to happen) and probability (the likelihood of the particular issue occurring). The nature and extent of its supervisory relationship with an individual firm depends on how much of a risk it considers that firm could pose to its statutory objectives.

²⁵ The Financial Services Action Plan consists of a set of measures intended by 2005 to fill gaps and remove the remaining barriers to a single market in financial services across the EU as a whole.

²⁶ Copyright Slaughter and May (reproduced with permission).

51 Work is co-ordinated through a supervisor with a fixed portfolio of one or more firms that are deemed to carry some risk to the FSA' statutory objectives, who carry out a regular risk assessment (on a cycle of one to four years) and determines a risk mitigation programme proportionate to the risks identified. The precise volume and type of work undertaken will depend on the size and riskiness of the firm concerned. Baseline monitoring activities are undertaken for each firm. This involves analysing a firm's financial and other returns, and checking compliance with notification requirements. Breaches and other indicators of risk may be followed up by the supervisory team. For high impact firms, a closer monitoring regime is used (called "close and continuous" work). This is essentially a planned schedule of visits to the firm throughout the regulatory period. This allows the supervisory team to meet the firm's senior management and control functions regularly, and understand and mitigate risk on a real time basis. In addition, for high impact firms which are systemic in nature, the FSA has designed specific programmes of core work to assess the biggest risks on the prudential and conduct side of the business.

Recordkeeping requirements for market intermediaries who may deal with members and other participants located in the United States

52 Article 51 of European Union Directive 2006/73/EC (the "MiFID Implementing Directive" at tab 16) imposes a broad obligation upon investment firms to retain records for a minimum of five years. The FSA Handbook requires authorised firms to retain certain records for longer periods (see tab 30k for a summary of the requirements of the FSA Handbook).

The protection of customer funds by market intermediaries who may deal with members and other participants located in the United States

53 The United Kingdom has a comprehensive regime for the protection of client monies held by investment firms. The FSA's client money rules can be found in CASS Chapter 7 of the FSA Handbook at tab 16. These rules implement the requirements of MiFID and the MiFID Implementing Directive.

54 In addition to these European and domestic rules, certain client money obligations of the United States apply to firms regulated by the FSA. Section 30.3 of Part 30 of the General Regulations under the US Commodity Exchange Act ("CFTC Part 30") makes it unlawful for any person to trade on behalf of US customers on non-US futures and options exchanges unless the trade is transacted by or through a US-registered futures commission merchant on a fully disclosed basis. These regulations also allow the CFTC to grant an exemption from this registration requirement on a jurisdiction by jurisdiction basis. We understand that the CFTC operates an exemption system for firms regulated by the FSA that are, inter alia, members of UK Recognised Investment Exchanges whereby the FSA sponsors applications for exemption for firms to the CFTC in line with the terms of the agreement between UK and US regulators.

55 A firm that makes use of the Part 30 exemption order must continue to comply with the applicable requirements and standards under the United Kingdom regulatory system including the Conduct of Business Sourcebook ("COBS") and CASS parts of the FSA Handbook. It also becomes subject to a number of additional US-specific

requirements. The FSA is responsible for the supervision of the firm and its adherence to the United Kingdom requirements and standards, as well as the additional US requirements.

56 One such additional US requirement is that an exempt firm must refuse customers resident in the United States the option of not segregating funds notwithstanding relevant provisions of the UK regulatory system which allow such opt-outs and to provide all customers resident in the United States no less stringent regulatory protection than that provided to UK customers under all relevant provisions of UK law (i.e., to segregate money provided by customers resident in the United States for the purposes of margining, guaranteeing or securing trades on the LME in accordance with the FSA's client money rules) (the "Standard Segregation Provision")²⁷. In addition to this, as well as the FSA's requirements on risk warnings, a firm obtaining an exemption must adhere to US documentation requirements for a general risk disclosure for foreign futures and options; an options disclosure; and a particular additional risk disclosure and explanatory statement to LME customers.

57 The particular risk disclosure and explanatory statement in relation to the LME arises because under English law, unrealised profits (net of losses) are not considered to be client money, whereas the position under US law is the opposite²⁸. To this end, firms that trade on behalf of US customers on the LME may comply with the US legal requirements in this area without adhering to the Standard Segregation Provision. In order to do so they must maintain a binding letter of credit or bank guarantee to cover forward profits and clearing exposures arising from trading on the LME drawn in favour of the customer²⁹ (the "Alternative Segregation Provision").

58 Members that trade on behalf of customers based in the United States either comply with the Standard Segregation Provision by segregating those transactions³⁰ or comply with the Alternative Segregation Provision by maintaining a bond that covers forward profits and clearing exposures arising from trading on the LME.

Procedures for dealing with the failure of a market intermediary in order to minimize damage and loss to investors and to contain systemic risk for market

²⁷ We understand that this requirement does not apply to "Eligible Contract Participants" as defined in section 1a(12) of the United States Commodity Exchange Act, 7 USC § 1a. The effect of this being that CFTC Part 30 exempt firms that have been approved by the FSA are able to offer such Eligible Contract Participants the option electing to not segregate.

²⁸ Unrealised profits on the LME are not deemed to exist until expiry of the contract on which the profits are based.

²⁹ See letter from Andrea Corcoran, Director, Division of Trading and Markets, to the Hon. Christopher J. Sharples, Chairman, AFBD, dated October 10, 1989; letter from Andrea Corcoran, Director, Division, to A.R.G. Frase, AFBD, dated June 19, 1990; letter from Andrea Corcoran, Director, Division of Trading and Markets, to Phillip Thorpe, Chief Executive, AFBD, and Chief Designate, SFA, dated April 1, 1991; and letter from John C. Lawton, Acting Director, Division of Trading and Markets, to Alan Whiting, Executive Director for Regulation and Compliance, LME, dated April 3, 2000 ("Lawton Letter"). These letters were written to a predecessor organisation to the FSA and, other than the Lawton Letter which is on the CFTC website, the LME does not hold copies of this correspondence.

³⁰ Either by registering segregated crosses in LMEsmart, the LME matching system, or by undertaking a full segregation calculation in their own books and records.

intermediaries who may deal with members and other participants located in the United States

59 Exchange Contracts and Client Contracts³¹ are “market contracts” under the Companies Act 1989. As such, the LCH and the LME deal with them under their respective default rules in the event of a default of a member. The LCH rules apply to Exchange Contracts (once matched and recorded at the LCH) and the LME Rules apply to Client Contracts.

60 By virtue of section 159 of the Companies Act 1989, the LME’s default rules, together with those of other recognised investment exchanges and recognised clearing houses (such as the LCH), take precedence over normal UK insolvency procedures following a default by a member under an LME contract. This provision is designed to safeguard the operation of the United Kingdom’s financial markets.

61 The default rules of the LME are contained in Part 9 of the LME Rules at tab 2 and set out, among other things, the circumstances under which the LME may declare a member to be in default, the actions that the LME may take in the event of a default, the type of resources that may be used to satisfy the defaulting member’s obligations and the sequence in which such resources may be used.

62 The default rules of the LCH are attached at tab 3. Under these rules the LCH has a range of options. Normally, in the first instance, the LCH will allow contracts between the defaulting member and the LCH to settle or the LCH will transfer them to another clearing member. If this is not possible, the LCH will close out the positions itself.

63 Following the administration of Lehman Brothers, the UK enacted legislation designed to improve UK insolvency law in relation to investment banks, subsequently extended to investment firms. This legislation is known as the Investment Bank Special Administration Regulations 2011 (“SAR”) which came into force in the United Kingdom on 8 February 2011. The SAR applies to investment banks which are defined in the Banking Act 2009 as institutions which: (a) have permission under Part 4 of FSMA to carry on at least one of the following regulated activities: (i) safeguarding and administering investments; (ii) dealing in investments as principal; or (iii) dealing in investments as agent; (b) hold client assets (whether or not on trust); and (c) are incorporated or formed in the United Kingdom. SAR sets out specific measures designed to improve the timeliness of the return of client assets. It also requires the special administrator to work with market infrastructure operators (such as the LME and LCH). For more information on the new special administration regime see tab 30m³².

³¹ See paragraphs 17 to 19 of Exhibit A-1 for an explanation of Exchange Contracts and Client Contracts.

³² Copyright Linklaters (reproduced with permission).

A description of the regulatory regime/authority’s inspection, investigation and surveillance powers; and the program pursuant to which the regulatory regime/authority uses those powers to inspect, investigate, and enforce rules applicable to the foreign board of trade.

64 This information is set out in Exhibit G of this form.

Good standing report

65 A letter confirming that the LME is in regulatory good standing is set out at tab 18. It is understood that as the LCH is a derivatives clearing organization there is no need to submit a good standing report for it.

Confirmation of co-operation from the FSA

66 In the letter set out at tab 18 the FSA confirms that, in relation to the LME and the FSA, it agrees to cooperate with a Commission staff visit subsequent to submission of the application on an “as needed basis,” the objectives of which will be to, among other things, familiarize Commission staff with supervisory staff of the regulatory regime/authority; discuss the laws, rules and regulations that formed the basis of the application and any changes thereto; discuss the cooperation and coordination between the authorities, including, without limitation, information sharing arrangements; and discuss issues of concern as they may develop from time to time (for example, linked contracts or unusual trading that may be of concern to Commission surveillance staff).

**EXHIBIT G – THE RULES OF THE FOREIGN BOARD OF TRADE AND
ENFORCEMENT THEREOF**

Exhibit G-1

A description of the foreign board of trade's regulatory or compliance department, including its size, experience level, competencies, duties and responsibilities.

LME Submission: Exhibit G-1

1 The LME regulation and compliance team consists of sixteen compliance staff (fourteen permanent staff and two consultants). It is divided into three divisions: market surveillance, member surveillance and enforcement. The diagram at tab 31 illustrates the team structure and length of time that each team member has worked at the LME.

2 Market surveillance: The primary role of market surveillance is to protect the integrity of the LME's markets by monitoring that trading is fair and transparent. Market surveillance staff analyse confidential data relating to members' and their clients' futures, options and warrant positions, as electronically reported by members each day. The information is analysed in conjunction with data on underlying trends in supply and demand and on traded prices in order to detect any potential tightness or anomalies in the market. Any concerns about suspected abuses of the market will be discussed with the member(s) concerned and, if necessary, referred to the enforcement team for further scrutiny.

3 Market surveillance also ensures that the market remains orderly. It administers the Lending Guidance (see Exhibit E-6). It monitors the registration and matching of trades to ensure this takes place within the time frames prescribed by the LME. It monitors intra-day trading activities through the LME matching system in close liaison with the LCH. In so far as LMEselect is concerned, market surveillance ensures that all trading on LMEselect takes place in accordance with the LME Rules.

4 Member surveillance: Member surveillance works closely with market surveillance to review members' controls, procedures and general compliance with the LME Rules by carrying out on-site inspection visits to member firms. They check that any information provided to market surveillance is complete and correct. Member surveillance reviews the controls and procedures put in place by LMEselect participants to ensure that only accredited users access LMEselect and LMEselect participants maintain the necessary records in accordance with LME and FSA requirements. Breaches of LME Rules identified by member surveillance will be referred to the enforcement team for further scrutiny.

5 The member surveillance team also undertakes what is known as the daily trade monitoring programme ("DTM Programme"). The DTM Programme involves the creation and analysis of a comprehensive suite of reports (at the time of writing 38 are produced but additional reports are created from time to time based on intelligence gathered). These reports are used to assess the accuracy of the audit trail of members. From these reports, erroneous entries or combinations of registrations are identified and investigated by the member surveillance team. These reports also enable the identification of more fundamental issues such as wash trades and price outliers.

6 Enforcement: The enforcement department investigates and prosecutes rule breaches. Instances of serious breaches of the LME Rules may be referred directly to the LME's enforcement lawyers by market or member surveillance. Where the possibility of a breach of the rules is not so clear cut, the matter will pass to the

enforcement team for further investigation. The principal role of the enforcement team is to investigate suspected breaches of the LME Rules.

7 The regulation and compliance department is divided as a matter of policy by means of information barriers from the rest of the LME so as to preserve the confidentiality of sensitive member and client commercial information that is required for regulatory purposes.

8 Market activity is monitored principally through information which members are compelled to provide in accordance with the LME Rules (see Exhibit G-2 for more information). In addition to the information provided through LMEsmart (which is populated from LMEselect and feeds the systems described at paragraphs 5 and 6 of Exhibit G-2), category 1, 2, 3 and 4 members are required to report, on a daily basis, by way of the LME's Daily Position Reporting System (DPRS) all holdings and positions for both house and client accounts (see LME Notice 09/231 at tab 14). These reports may still be referred to colloquially as large position reports because there used to be a minimum size requirement for a reportable position. However, the minimum size requirement for a reportable position was reduced to one lot for all metals by 2004. This enables the build up of dominant positions to be monitored and provides an early indication of possible abusive squeezes. Information on positions is published by the LME on an anonymous basis in order to provide transparency to the market. Information provided confidentially by members via DPRS is reconciled against member position reports provided by the LCH.

9 The LME has certain summary powers to deal with market emergencies that apply in addition to the Lending Guidance. In the event of a suspected undesirable or improper trading practice such as an attempt to squeeze the market, the LME's Special Committee may take any steps necessary to resolve the situation. These steps include ordering a member to trade out of positions. The Special Committee is comprised of independent non-conflicted persons appointed by the board of The London Metal Exchange Limited. This ensures that no directors who may have a conflict of interest are involved in decisions made about any market aberrations.

10 The key LME notices containing rules on compliance and regulatory matters are set out at tab 14.

EXHIBIT G – THE RULES OF THE FOREIGN BOARD OF TRADE AND ENFORCEMENT THEREOF

Exhibit G-2

A description of the foreign board of trade's trade practice rules, including but not limited to rules that address the following –

- (1) Capacity of the foreign board of trade to detect, investigate, and sanction persons who violate foreign board of trade rules.
- (2) Prohibition of fraud and abuse, as well as abusive trading practices including, but not limited to, wash sales and trading ahead, and other market abuses.
- (3) A trade surveillance system appropriate to the foreign board of trade and capable of detecting and investigating potential trade practice violations.
- (4) An audit trail that captures and retains sufficient order and trade-related data to allow the compliance staff to detect trading and market abuses and to reconstruct all transactions within a reasonable period of time.
- (5) Appropriate resources to conduct real-time supervision of trading.
- (6) Sufficient compliance staff and resources, including those outsourced or delegated to third parties, to fulfill regulatory responsibilities.
- (7) Rules that authorize compliance staff to obtain, from market participants, information and cooperation necessary to conduct effective rule enforcement and investigations.
- (8) Staff investigations and investigation reports demonstrating that the compliance staff investigates suspected rule violations and prepares reports of their finding and recommendations.
- (9) Rules determining access requirements with respect to the persons that may trade on the foreign board of trade, and the means by which they connect to it.
- (10) The requirement that market participants submit to the foreign board of trade's jurisdiction as a condition of access to the market.

LME Submission: Exhibit G-2

Capacity of the foreign board of trade to detect, investigate, and sanction persons who violate foreign board of trade rules

1 Regulations 9 to 12 of Part 2 of the LME Rules at tab 2 set out the capacity of the LME to investigate and sanction persons who violate the LME Rules. This function, along with the detection of such violations, is performed by the LME regulation and compliance team as set out in Exhibit G-1.

Prohibition of fraud and abuse, as well as abusive trading practices including, but not limited to, wash sales and trading ahead, and other market abuses.

2 Regulations 9.6 and 9.7 of Part 2 of the LME Rules at tab 2 prohibit fraud and abuse as well as other trading practices and market abuses. United Kingdom and European legislation supplement these prohibitions and are further described in Exhibit F.

A trade surveillance system appropriate to the foreign board of trade and capable of detecting and investigating potential trade practice violations.

3 There are two primary systems used by the LME compliance department to detect potential trade practice violations: (i) CSS; and (ii) Trade Analytics. CSS is used by the market surveillance team to monitor the positions of LME members and customers to the market and to assist with the administration of the Lending Guidance. The information in CSS is used to verify information submitted by members via DPRS, through which members are required to report positions for house and customer accounts down to one lot. It provides the LME compliance and regulation team with the key information it needs to ensure the LME maintains an orderly market. Trade Analytics is an advanced web based database tool. This is currently used by the member surveillance team to produce the reports used for the DTM Programme which is summarised in Exhibit G-1. It is also capable of producing bespoke reports that may be necessary for the enforcement team to undertake an investigation.

4 The LME is in the latter stages of implementing an additional alert-based monitoring system. This system will enhance the existing ability of the LME to monitor real-time trading behavior and will run in conjunction with the current monitoring tools and processes. It will enable custom alerts and reports to be built by the regulation and compliance team with significantly reduced effort, thereby improving the intraday surveillance tools available to the LME by allowing it to react more swiftly to changes in market conditions.

An audit trail that captures and retains sufficient order and trade-related data to allow the compliance staff to detect trading and market abuses and to reconstruct all transactions within a reasonable period of time.

5 CSS, which provides all the key information necessary for the LME to maintain an orderly market, is a local client application which is updated every 30

minutes. It therefore provides a near real time overview positions of LME members and customers down to one lot.

6 All trade data is stored in the Trade Analytics database. This includes enriched data such as reference fields and customer account fields. This data is captured at the end of each day and reconciled each morning. The data is presented at trade-half level, *i.e.*, each buy and sell side contains unique data. With this structure Trade Analytics is able to present data at a granular level, illustrating information such as position movements of an individual client across several brokers. This level of granularity is necessary to be able to reconstruct order and trade flow which is essential for proper surveillance and investigation.

7 The new software tool referred to at paragraph 6 above will be supplemented by a new database that will update in real time. The enhanced functionality of this system will reduce the time it will take the regulation and compliance team to reconstruct order and trade flows. It will also include a graphical output tool which will enable the underlying data to be presented and interpreted by third parties who are less familiar with the market structure of the LME.

Appropriate resources to conduct real-time supervision of trading.

8 The LME regulation and compliance team has sufficient personnel, and with the implementation of the new software tool referred to at paragraph 6 above, will have sufficient software tools, to conduct real-time supervision of trading. Open outcry trading is monitored by an LME floor team of 15 staff. This floor team enforces orderly trading requirements into the ring. The LMEselect operations team (around 20 staff) monitor for orderly trading on LMEselect and enforce the LME's order to trade ratio and message throttling policies. Analysis of trading in the ring, on LMEselect and on the telephone to monitor for market abuse is handled by the regulation and compliance team described in Exhibit G-1.

Sufficient compliance staff and resources, including those outsourced or delegated to third parties, to fulfill regulatory responsibilities.

9 The resourcing of the LME regulation and compliance team is kept under constant review by the Deputy Chief Executive. The two consultants within the team provide the compliance department with a flexible resource to supplement the full time staff in periods of increased workload. The recent default of MF Global illustrated that the LME compliance department had sufficient resources to manage such periods of increased workload without detriment to routine day to day activities. During the immediate aftermath of the default, one of the consultants operated on a full time basis to ensure routine operations remained unaffected.

Rules that authorize compliance staff to obtain, from market participants, information and cooperation necessary to conduct effective rule enforcement and investigations.

10 Regulation 9 of Part 2 of the LME Rules at tab 2 sets out comprehensive obligations upon members to provide information and access to information to the LME, including in relation to OTC transactions and information held by third

parties. Regulation 10.5 of Part 2 of the LME Rules supplements this obligation, but this regulation will only apply where there is an investigation.

Staff investigations and investigation reports demonstrating that the compliance staff investigates suspected rule violations and prepares reports of their finding and recommendations.

11 An example of an investigation report is attached at tab 32. This report demonstrates that LME regulation and compliance staff investigate suspected rule violations and prepare reports of its findings. In this instance the trading appeared to the LME enforcement team to constitute market abuse and was referred to the FSA for consideration.

Rules determining access requirements with respect to the persons that may trade on the foreign board of trade, and the means by which they connect to it.

12 As noted in Exhibit A-1, the LME is a principal to principal market. Regulation 1.4 of Part 3 of the LME Rules at tab 2 sets out that only category 1 or category 2 or category 4 members may write LME contracts. As such, a member must be party to every LME contract. The member application process, requirements for access to LMEselect and means by which members are able to access LMEselect are set out in Exhibits A and B.

The requirement that market participants submit to the foreign board of trade's jurisdiction as a condition of access to the market.

13 Regulation 2.4 of Part 1 of the LME Rules at tab 2 stipulates that the LME Rules shall be binding on all members. Regulation 1.4 of Part 3 of the LME Rules specifies that all Client Contracts may only be written by category 1, category 2 or category 4 members, the effect of which being that all Client Contracts will have at least one party being a member of the LME. Regulation 1.5 of Part 3 of the LME Rules specifies that all Client Contracts shall be governed by the LME Rules.

EXHIBIT G – THE RULES OF THE FOREIGN BOARD OF TRADE AND ENFORCEMENT THEREOF

Exhibit G-3

A description of the foreign board of trade's disciplinary rules, including but not limited to rules that address the following –

- (1) Disciplinary authority and procedures that empower staff to recommend and prosecute disciplinary actions for suspected rule violations and that provide the authority to fine, suspend, or expel any market participant pursuant to fair and clear standards.
- (2) The issuance of warning letters and/or summary fines for specified rule violations.
- (3) The review of investigation reports by a disciplinary panel or other authority for issuance of charges or instructions to investigate further, or findings that an insufficient basis exists to issue charges.
- (4) Disciplinary committees of the foreign board of trade that take disciplinary action via formal disciplinary processes.
- (5) Whether and how the foreign board of trade articulates its rationale for disciplinary decisions.
- (6) The sanctions for particular violations and a discussion of the adequacy of sanctions with respect to the violations committed and their effectiveness as a deterrent to future violations.

LME Submission: Exhibit G-3

1 Regulations 10 and 11 of Part 2 of the LME Rules at tab 2 respectively set out the investigatory and disciplinary procedures of the LME. Please refer to the following parts of the LME Rules for the specific information required by this Exhibit:

Exhibit Requirement	LME Rule
<p>Disciplinary authority and procedures that empower staff to recommend and prosecute disciplinary actions for suspected rule violations and that provide the authority to fine, suspend, or expel any market participant pursuant to fair and clear standards.</p>	<p>Regulation 10 of Part 2: Authority and procedures empowering staff to recommend disciplinary actions for suspected rule violations.</p> <p>Regulations 11.1 and 11.22 to 11.26 of Part 2: Authority and procedures that empower staff to prosecute disciplinary actions for suspected rule violations and that provide the authority to fine, suspend, or expel any market participant pursuant to fair and clear standards.</p>
<p>The issuance of warning letters and/or summary fines for specified rule violations.</p>	<p>There is no explicit power for the LME to issue warning letters to members. Despite this, the LME does issue such letters in relation to infractions of the LME Rules such as a failure to comply with regulation 9.6 of Part 2 (organising and control of a member’s internal affairs). These letters are usually issued with a view to evidencing at a later date a systematic failure to maintain such controls through repeated breaches. The FSA is kept fully abreast of all instances in which such warnings are issued.</p> <p>Regulations 11.23 to 11.25 of Part 2: These regulations provide that the LME may set out indicative penalties to be attached to certain offences covered by the LME rules. To date, other than in relation to the order to trade ratio described in Exhibit D-1, the LME has not used summary fines.</p>
<p>The review of investigation reports by a disciplinary panel or other authority for issuance of charges or instructions to investigate further, or findings that an insufficient basis</p>	<p>Regulation 10.6 of Part 2: The Executive Director: Regulation and Compliance (Deputy Chief Executive) will review investigation reports created pursuant to Regulation 10 who may or</p>

<p>exists to issue charges.</p>	<p>may not recommend to the Enforcement Committee that disciplinary proceedings should be commenced.</p>
<p>Disciplinary committees of the foreign board of trade that take disciplinary action via formal disciplinary processes.</p>	<p>Regulation 11.1 of Part 2: The Enforcement Committee will institute investigations.</p> <p>Regulations 11.16 to 11.21 of Part 2: A Disciplinary Committee drawn from the Disciplinary Panel will determine the outcome of the proceedings.</p> <p>Regulations 11.27 to 11.35 of Part 2: A member may appeal the decision of the Disciplinary Committee to an Appeal Committee drawn from the Appeal Panel.</p> <p>Regulations 11.47 to 11.60 of Part 2: These regulations set out the membership and composition of a Disciplinary Committee and Appeal Committee.</p> <p>Pursuant to English administrative law, the outcome of a Disciplinary Appeal Committee may be subject to judicial review by the English Courts.</p>
<p>Whether and how the foreign board of trade articulates its rationale for disciplinary decisions.</p>	<p>Regulation 10.7: The Executive Director: Regulation and Compliance (Deputy Chief Executive) may publish the findings of an investigation where some or all of the findings may be of relevance to the market.</p> <p>Regulations 11.42 to 11.45 of Part 2: The outcome of disciplinary proceedings may be notified to the relevant parties. The definition of the relevant parties depends on the facts of each disciplinary proceeding. However, since 1998 the LME has made public the outcome of all disciplinary proceedings.</p>
<p>The sanctions for particular violations and a discussion of the adequacy of sanctions with respect to the violations committed and their effectiveness as a deterrent to future violations.</p>	<p>As noted above, there are no fixed sanctions for breaches of the LME Rules other than those in relation to the order to trade ratio. At tab 33 a list of fines as a result of disciplinary proceedings are set out. The effectiveness of these sanctions</p>

	as a deterrent to future violations is evidenced by the reduced frequency over time.
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EXHIBIT G – THE RULES OF THE FOREIGN BOARD OF TRADE AND ENFORCEMENT THEREOF

Exhibit G-4

A description of the market surveillance program (and any related rules), addressing the dedicated market surveillance department or the delegation or outsourcing of that function, including a general description of the staff; the data collected on traders' market activity; data collected to determine whether prices are responding to supply and demand; data on the size and ownership of deliverable supplies; a description of the manner in which the foreign board of trade detects and deters market manipulation; for cash-settled contracts, methods of monitoring the settlement price or value; and any foreign board of trade position limit, position management, large trader or other position reporting system.

LME Submission: Exhibit G-4

- 1 The information requested by this Exhibit is largely set out elsewhere in this form:

Information required	Relevant part of Exhibit
Description of the dedicated market surveillance function	Exhibits G-1 and G-2
The data collected on trader' market activity	Exhibits G-1 and G-2
Data collected to determine whether prices are responding to supply and demand	Exhibits G-1 and G-2
Data on the size and ownership of deliverable supplies	Exhibits G-1 and G-2
Description of the manner in which the foreign board of trade detects and deters market manipulation	Exhibits G-1 and G-2
Any foreign board of trade position limit, position management, large trader or other position reporting system	Exhibits G-1 and E-6.
Relevant parts of the LME Rules relating to market surveillance	Exhibits G-1 and G-2

- 2 The only cash-settled LME contracts are the LMEX, LMEminis and LMEswaps (see paragraphs 14 and 15 of Exhibit A-1). These contracts are based exclusively on LME futures contract prices. As such, the monitoring of futures contracts as described in Exhibit G-1 is the primary means through which the settlement price of these contracts are monitored.

EXHIBIT H – INFORMATION SHARING AGREEMENTS AMONG THE COMMISSION, THE FOREIGN BOARD OF TRADE, THE CLEARING ORGANIZATION, AND RELEVANT REGULATORY AUTHORITIES

- (1) A description of the arrangements among the Commission, the foreign board of trade, the clearing organization, and the relevant foreign regulatory authorities that govern the sharing of information regarding the transactions that will be executed pursuant to the foreign board of trade's registration with the Commission and the clearing and settlement of those transactions. This description should address or identify whether and how the foreign board of trade, clearing organization, and the regulatory authorities governing the activities of the foreign board of trade and clearing organization agree to provide directly to the Commission information and documentation requested by Commission staff that Commission staff determines is needed:
 - (i) To evaluate the continued eligibility of the foreign board of trade for registration.
 - (ii) To enforce compliance with the specified conditions of the registration.
 - (iii) To enable the CFTC to carry out its duties under the Act and Commission regulations and to provide adequate protection to the public or registered entities.
 - (iv) To respond to potential market abuse associated with trading by direct access on the registered foreign board of trade.
 - (v) To enable Commission staff to effectively accomplish its surveillance responsibilities with respect to a registered entity where Commission staff, in its discretion, determines that a contract traded on a registered foreign board of trade may affect such ability.
- (2) A statement as to whether and how the foreign board of trade has executed the International Information Sharing Memorandum of Understanding and Agreement.
- (3) A statement as to whether the regulatory authorities governing the activities of the foreign board of trade and clearing organization are signatories to the International Organization of Securities Commissions Multilateral Memorandum of Understanding. If not, describe any substitute information-sharing arrangements that are in place.
- (4) A statement as to whether the regulatory authorities governing the activities of the foreign board of trade and clearing organization are signatories to the Declaration on Cooperation and Supervision of International Futures Exchanges and Clearing Organizations. If not, a statement as to whether and how they have committed to share the types of information contemplated by the International Information Sharing Memorandum of Understanding and Agreement with the Commission, whether pursuant to an existing memorandum of understanding or some other arrangement.

LME Submission: Exhibit H

Arrangements among the Commission, the foreign board of trade, the clearing organization, and the relevant foreign regulatory authorities that govern the sharing of information regarding the transactions that will be executed pursuant to the foreign board of trade's registration with the Commission and the clearing and settlement of those transactions

Arrangements direct between the Commission and the LME

1 Tab 19 contains an undertaking from the Chief Executive of the LME to notify Commission staff promptly if any of the representations made in connection with or related to the foreign board of trade's application for registration cease to be true or correct, or become incomplete or misleading.

2 Additional information relevant to the LME, LMEselect and market participants will be available to the Commission and its staff through certain information-sharing arrangements to which both the CFTC and the FSA are parties as set out at tab 34.

Arrangements direct between the Commission and the LCH

3 In addition to information that the LCH is obliged to provide pursuant to its status as a DCO, information relevant to the clearing and settlement of LME transactions will be available to the Commission and its staff through certain information-sharing arrangements to which both the CFTC and the FSA are parties as set out at tab 34.

A statement as to whether and how the foreign board of trade has executed the International Information Sharing Memorandum of Understanding and Agreement.

5 The LME is an original signatory to the International Information Sharing Memorandum of Understanding and Agreement as evidenced at tab 34.

A statement as to whether the regulatory authorities governing the activities of the foreign board of trade and clearing organization are signatories to the International Organization of Securities Commissions Multilateral Memorandum of Understanding. If not, describe any substitute information-sharing arrangements that are in place.

6 The FSA is party to the IOSCO Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information.

A statement as to whether the regulatory authorities governing the activities of the foreign board of trade and clearing organization are signatories to the Declaration on Cooperation and Supervision of International Futures Exchanges and Clearing Organizations. If not, a statement as to whether and how they have committed to share the types of information contemplated by the International Information Sharing Memorandum of Understanding and

Agreement with the Commission, whether pursuant to an existing memorandum of understanding or some other arrangement.

7 The FSA is party to the Declaration on Cooperation and Supervision of International Futures Exchanges and Clearing Organizations.

EXHIBIT I – ADDITIONAL INFORMATION AND DOCUMENTATION

Any additional information or documentation necessary to demonstrate that the requirements for registration applicable to the foreign board of trade set forth in Commission regulation 48.7 are satisfied.

EXHIBIT I – ADDITIONAL INFORMATION AND DOCUMENTATION

- 1 No further information or documentation is necessary.