



222 South Riverside Plaza, Suite 900  
Chicago, IL 60606

## DISCLOSURE BOOKLET

The process of trading begins with your completing at least one set of account forms and reading and confirming receipt of the disclosure booklet.

Please be sure that you read and understand everything in this disclosure booklet. Fill it out fully and legibly, signing and dating, in ink, where required. Otherwise, the opening of your account may be delayed. A new account can be traded only when the Application and initial funds are accepted in, and the Application is approved by, R.J. O'Brien's Chicago office.

SINCE TRADES INVOLVE AN IMMEDIATE OBLIGATION BY R.J. O'BRIEN TO THE EXCHANGES ON WHICH YOU TRADE, UNLESS OTHER ARRANGEMENTS HAVE BEEN MADE, YOUR TRADING CAN BEGIN ONLY WHEN CLEARED FUNDS ARE RECEIVED BY R.J. O'BRIEN, IN THE FORM OF:

- A.) A **bank wire** to the Harris Trust & Savings Bank of Chicago for the account of R.J. O'Brien, Customer Segregated Account 367-171-6. The ABA routing, if necessary, is 071-000-288. (Be sure to include your name as it appears on your account agreement and also your complete account number);
- B.) A **certified check or cashier's check** made payable to R.J. O'Brien. If this is a new account, personal checks, money market checks and savings and loan checks may require clearance before you can trade. In addition, the originating source of all funds coming into the account must match the name on the account;
- C.) **TRANSFER of funds and/or existing positions** to your account from another firm. When transferring an account, please fill out the Account Transfer Form in the back of this booklet, return it to R.J. O'Brien with all other required documents (via your Introducing Broker, if any), and R.J. O'Brien will apply positions and funds to your account accordingly.

WHEN YOUR ACCOUNT IS OPEN AND TRADING, READ YOUR STATEMENTS CAREFULLY, AS SOON AS THEY ARE RECEIVED. If you plan to be away, check in with your broker frequently! *Do not delay reviewing your trading status.* If you have ANY questions about an individual trade or your balance or position, either phone your account representative (broker) immediately, or if he or she is unavailable or a problem is not resolved at once, call the R.J. O'Brien Compliance staff in Chicago at 312-373-5000.

**ATTENTION: Please make a retain a copy of all disclosures for your records**

**DISCLOSURE TABLE OF CONTENTS:**

Disclosure of Futures Commission Merchant Material Conflicts of Interest.....	3
Electronic Trading and Order Routing Systems Disclosure Statement.....	5
ACH Disclosure.....	6
Addendum To Account Agreement Where Transactions Carried Out On LIFFE Administration and Management("LIFFE").....	7
Uniform Notification Regarding Access To Market Data.....	9
Notice Regarding Average Price System ("APS").....	11
Disclosure On Payment For Order Flow and Cross Trade Consent.....	12
Direct Order Transmittal Client Disclosure Statement.....	13
Foreign Trader Disclosure Statement.....	14
Notice To Clients Position Limit and Large Open Position Reporting Requirements For Options and Futures Traded On The HONG KONG EXCHANGES.....	15
Erisa 408(b)(2) Disclosure.....	17
A Guide to the Structure and Market Terminology of the London Metal Exchange.....	19

**DISCLOSURE OF  
FUTURES COMMISSION MERCHANT  
MATERIAL CONFLICTS OF INTEREST**



The purpose of this document is to provide you with information about some of the material conflicts of interest that may arise between you and R.J. O'Brien & Associates, LLC ("RJO") in connection with RJO performing services for you with respect to futures, options on futures, swaps (as defined in the Commodity Exchange Act), forwards or other commodity derivatives ("Contracts"). Conflicts of interests can arise in particular when RJO has an economic or other incentive to act, or persuade you to act, in a way that favors RJO or its affiliates.

Under applicable law, including regulations of the Commodity Futures Trading Commission ("CFTC"), not all swaps are required to be executed on an exchange or swap execution facility (each, a "Trading Facility"), even if a Trading Facility lists the swap for trading. In such circumstances, it may be financially advantageous for RJO or its affiliate to execute a swap with you bilaterally in the over-the-counter market rather than on a Trading Facility and, to the extent permitted by applicable law, we may have an incentive to persuade you to execute your swap bilaterally.

Applicable law may permit you to choose the CFTC-registered derivatives clearing organization ("Clearing House") to which you submit a swap for clearing. You should be aware that RJO may not be a member of, or may not otherwise be able to submit your swap to, the Clearing House of your choice. RJO consequently has an incentive to persuade you to use a Clearing House of which RJO or its affiliate is a member.

You also should be aware that RJO or its affiliate may own stock in, or have some other form of ownership interest in, one or more U.S. or foreign Trading Facilities or Clearing Houses where your transactions in Contracts may be executed and/or cleared. As a result, RJO or its affiliate may receive financial or other benefits related to its ownership interest when Contracts are executed on a given Trading Facility or cleared through a given Clearing House, and RJO would, in such circumstances, have an incentive to cause Contracts to be executed on that Trading Facility or cleared by that Clearing House. In addition, employees and officers of RJO or its affiliate may also serve on the board of directors or on one or more committees of a Trading Facility or Clearing House.

In addition, Trading Facilities and Clearing Houses may from time to time have in place other arrangements that provide their members or participants with volume, market-making or other discounts or credits, may call for members or participants to pre-pay fees based on volume thresholds, or may provide other incentive or arrangements that are intended to encourage market participants to trade on or direct trades to that Trading Facility or Clearing House. RJO or its affiliate may participate in and obtain financial benefits from such incentive programs.

When we provide execution services to you (either in conjunction with clearing services or in an execution-only capacity), we may direct orders to affiliated or unaffiliated market-makers, other executing firms, individual brokers or brokerage groups for execution. When such affiliated or unaffiliated parties are used, they may, where permitted, agree to price concessions, volume discounts or refunds, rebates or similar payments in return for receiving such business. Likewise, where permitted by law and the rules of the applicable Trading Facility, we may solicit a counterparty to trade opposite your order or enter into transactions for its own account or the account of other counterparties that may, at times, be adverse to your interests in a Contract. In such circumstances, that counterparty may make payments and/or pay a commission to RJO in connection with that transaction. The results of your transactions may differ significantly from the results achieved by us for our own account, our affiliates, or for other customers.

In addition, where permitted by applicable law (including, where applicable, the rules of the applicable Trading Facility), RJO, its directors, officers, employees and affiliates may act on the other side of your

order or transaction by the purchase or sale for an account, or the execution of a transaction with a counterparty, in which RJO or a person affiliated with RJO has a direct or indirect interest, or may effect any such order with a counterparty that provides RJO or its affiliates with discounts related to fees for Contracts or other products. In cases where we have offered you a discounted commission or clearing fee for Contracts executed through RJO as agent or with RJO or its affiliate acting as counterparty, RJO or its affiliate may be doing so because of the enhanced profit potential resulting from acting as executing broker or counterparty.

RJO or its affiliate may act as, among other things, an investor, research provider, placement agent, underwriter, distributor, remarketing agent, structurer, securitizer, lender, investment manager, investment adviser, commodity trading advisor, municipal advisor, market maker, trader, prime broker or clearing broker. In those and other capacities, RJO, its directors, officers, employees and affiliates may take or hold positions in, or advise other customers and counterparties concerning, or publish research or express a view with respect to, a Contract or a related financial instrument that may be the subject of advice from us to you. Any such positions and other advice may not be consistent with, or may be contrary to, your interests or to positions which are the subject of advice previously provided by RJO or its affiliate to you, and unless otherwise disclosed in writing, we are not necessarily acting in your best interest and are not assessing the suitability for you of any Contract or related financial instrument. Acting in one or more of the capacities noted above may give RJO or its affiliate access to information relating to markets, investments and products. As a result, RJO or its affiliate may be in possession of information which, if known to you, might cause you to seek to dispose of, retain or increase your position in one or more Contracts or other financial instruments. RJO and its affiliate will be under no duty to make any such information available to you, except to the extent we have agreed in writing or as may be required under applicable law.

## **ELECTRONIC TRADING AND ORDER ROUTING SYSTEMS DISCLOSURE STATEMENT\***

Electronic trading and order routing systems differ from traditional open outcry pit trading and manual order routing methods. Transactions using an electronic system are subject to the rules and regulations of the exchange (s) offering the system and/or listing the contract. Before you engage in transactions using an electronic system, you should carefully review the rules and regulations of the exchange (s) offering the system and/or listing contracts you intend to trade.

### **Differences Among Electronic Trading Systems**

Trading or routing orders through electronic systems varies widely among the different electronic systems. You should consult the rules and regulations of the exchange offering the electronic system and/or listing the contract traded or order routed to understand, among other things, in the case of trading systems, the system's order matching procedure, opening and closing procedures and prices, error trade policies, and trading limitations or requirements, and in the case of all systems, qualifications for access and grounds for termination and limitations on the types of orders that may be entered into the system. Each of these matters may present different risk factors with respect to trading on or using a particular system. Each system may also present risks related to system access, varying response times, and security. In the case of Internet-based systems, there may be additional types of risks related to system access, varying response times and security, as well as risks related to service providers and the receipt and monitoring of electronic mail.

### **Risks Associated with System Failure**

Trading through an electronic trading or order routing system exposes you to risks associated with system or component failure. In the event of system or component failure, it is possible that, for a certain time period, you may not be able to enter new orders, execute existing orders, or modify or cancel orders that were previously entered. System or component failure may also result in loss of orders or order priority.

### **Simultaneous Open Outcry Pit and Electronic Trading**

Some contracts offered on an electronic trading system may be traded electronically and through open outcry during the same trading hours. You should review the rules and regulations of the exchange offering the system and/or listing the contract to determine how orders that do not designate a particular process will be executed.

### **Limitation of Liability**

Exchanges offering an electronic trading or order routing system and/or listing the contract may have adopted rules to limit their liability, the liability of FCMs, and software and communication system vendors and the amount of damages you may collect for system failure and delays. These limitations of liability provisions vary among the exchanges. You should consult the rules and regulations of the relevant exchange (s) in order to understand these liability limitations.

**\*Each exchange's relevant rules are available upon request from the industry professional with whom you have an account. Some exchange's relevant rules also are available on the exchange's Internet home page.**

## ACH DISCLOSURE

Each time you provide RJO with a check as payment, you authorize RJO either to use information from your check to make a one-time electronic fund transfer from your account or to process the payment as a check transaction. When RJO uses information from your check to make an electronic fund transfer, funds may be withdrawn from your account as soon as the same day we receive your payment, and you will not receive your check back from your financial institution. RJO will not be liable for any transfer errors caused by any inaccurate data you have provided. For inquiries, please contact RJO's Treasury Department at [treasury@rjobrien.com](mailto:treasury@rjobrien.com).

## **ADDENDUM TO ACCOUNT AGREEMENT WHERE TRANSACTIONS CARRIED OUT ON LIFFE ADMINISTRATION AND MANAGEMENT ("LIFFE")**

This Addendum only applies to contracts subject to the rules of LIFFE in force from time to time (the "**LIFFE Rules**") (a "**LIFFE Contract**"). For the avoidance of doubt, no other contracts or other activities carried out by R.J. O'Brien under the Account Agreement between R.J. O'Brien and you, or the parties' rights and obligations under the Account Agreement, are affected in any way by this Addendum. Where a LIFFE Contract is made between the parties (and only to that extent), this Addendum shall supplement and amend the Account Agreement and, where there is a conflict between the provisions of this Addendum and the Account Agreement, the provisions of this Addendum shall prevail in relation to such LIFFE Contracts.

### **DEFINITIONS**

In this Addendum:

"Exchange" means LIFFE;

"LCH" means LCH Clearnet Limited (formerly the London Clearing House Limited);

"LIFFE" means LIFFE Administration and Management; and

"LIFFE Contract" means an Exchange Contract to which a Linked Participating Exchange Contract is linked.

### **GENERAL PROVISIONS**

#### **1. Rules of LIFFE and R.J. O'Brien's capacity**

All contracts in the terms of an exchange contract made on LIFFE (an "**Exchange Contract**") shall be subject to the LIFFE Rules as from time to time in force. As a member of LIFFE, R.J. O'Brien contracts only as a principal in respect of contracts in the terms of an Exchange Contract. In the event of a conflict between the LIFFE Rules and the terms of the Account Agreement (as amended by this Addendum), the LIFFE Rules as from time to time in force, shall prevail.

#### **2. Matching contracts**

In respect of every contract made between the parties subject to the LIFFE Rules, R.J. O'Brien shall have made an equivalent contract on an automated trading system administered by a futures and options market/futures and options exchange, or shall have accepted the allocation of any such contract.

#### **3. Allocation**

In respect of every contract made between the parties subject to the LIFFE Rules for allocation to another member specified by you:

- (a) in the event that such other member accepts the allocation, R.J. O'Brien shall (without prejudice to any claim R.J. O'Brien may have for commission or other payment) upon such acceptance cease to be a party to the contract and shall have no obligation to you for its performance;
- (b) in the event that such other member declines to accept the allocation, R.J. O'Brien shall be entitled at its option either to confirm the contract with you or to liquidate it by such sale, purchase, disposal or other transaction or cancellation as R.J. O'Brien may in its discretion determine, whether on the market or by private contract or any other feasible method; and any balance resulting from such liquidation shall be promptly settled between the parties.

#### **4. Error correction**

In our and your interests, the Exchange may from time to time sanction the making of contracts by us outside the pit in order to satisfy your order, where there has been an error in the execution of your order in the pit. Where a better price (an improvement) can be obtained, R.J. O'Brien will seek to secure and offer that improvement to you.

However, you should note that where, in response to your order, R.J. O'Brien has bought or sold in accordance with the instruction in your order to buy or, as the case may be, to sell but have traded the wrong delivery/expiry month or wrong exercise price of the relevant contract, then R.J. O'Brien may in accordance with the Exchange's Rules offset any loss arising from that trade against any improvement achieved for you in the course of correctly satisfying your order, thus offering you only the net improvement, if any.

#### **5. Exclusion of liability**

*As a member of the LIFFE market, and pursuant to the LIFFE Rules, R.J. O'Brien is required to include a provision dealing with exclusion of liability in the Account Agreement with the Customer.*

LIFFE is obliged under the Financial Services and Markets Act 2000 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. To this end, LIFFE will at all times maintain a fair and orderly market as is consistent with LIFFE's legal obligations and the object of the market.

R.J. O'Brien and LIFFE wish to draw to your attention that, inter alia, business on the market may from time to time be suspended or restricted or the market may from time to time be closed for a temporary period or for such longer period as may be determined in accordance with the LIFFE Rules on the occurrence of one or more events which require such action to be taken in the interests of, inter alia, maintaining a fair and orderly market. Any such action may result in R.J. O'Brien being unable, and through R.J. O'Brien, you (and your clients, if any) being unable to enter into contracts in accordance with the LIFFE Rules. Furthermore, R.J. O'Brien, and through R.J. O'Brien, you (and your clients, if any) may from time to time be prevented from or hindered in entering into contracts in accordance with the LIFFE Rules as a result of a failure of some or all market facilities. R.J. O'Brien and LIFFE wish to draw the following exclusion of liability to your attention (and to the attention of your clients, if any). Unless otherwise expressly provided in the LIFFE Rules or in any other agreement to which LIFFE is party, R.J. O'Brien and LIFFE shall not be liable to you (or your clients, if any) for loss (including any indirect or consequential loss including, without limitation, loss of profit), damage, injury or delay, whether direct or indirect, arising from any of the circumstances or occurrences referred to above or from any act or omission of LIFFE, its officers, employees, agents or representatives under the LIFFE Rules or pursuant to the Exchange's obligations under statute or from any breach of contract by or any negligence howsoever arising of LIFFE, its officers, employees, agents or representatives.

#### **6. Arbitration**

Any dispute arising from or relating to this Addendum, to the extent that it relates to a LIFFE Contract, and any dispute arising from or relating to any such LIFFE Contract shall, unless resolved between the parties, be referred to arbitration under the arbitration provisions of the LIFFE Rules, or to such organisation as LIFFE may direct (which may include the National Futures Association in the U.S.) before either party may resort to the jurisdiction of the courts (other than to obtain an injunction or an order for security for a claim).

#### **7. Governing law**

This Addendum and all LIFFE Contracts made under this Addendum shall be subject to and construed in accordance with English law.

#### **8. Jurisdiction**

Subject to the arbitration clause above, disputes arising from this Addendum or from contracts made under this Addendum shall (for the benefit of R.J. O'Brien) be subject to the exclusive jurisdiction of the English courts to which both parties hereby irrevocably submit, provided that this shall not prevent R.J. O'Brien bringing an action in the courts of any other jurisdiction.



## UNIFORM NOTIFICATION REGARDING ACCESS TO MARKET DATA

As a market user you may obtain access to Market Data available through an electronic trading system, software or device that is provided or made available to you by a broker or an affiliate of such. Market Data may include, with respect to products of an exchange (“Exchange”) or the products of third party participating exchanges that are traded on or through the Exchange’s electronic trading platform (“Participating Exchange”), but is not limited to, “real time” or delayed market prices, opening and closing prices and ranges, high-low prices, settlement prices, estimated and actual volume information, bids or offers and the applicable sizes and numbers of such bids or offers.

You are hereby notified that Market Data constitutes valuable confidential information that is the exclusive proprietary property of the applicable exchange, and is not within the public domain. Such Market Data may only be used for your firm’s internal use. You may not, without the written authorization of the applicable exchange, redistribute, sell, license, retransmit or otherwise provide Market Data, internally or externally and in any format by electronic or other means, including, but not limited to the Internet. Further, you may not, without the written authorization of the applicable exchange, use Exchange Market Data for purposes of determining any price, including any settlement price, for any futures product, options on futures product, or other derivatives instrument traded on any exchange other than an Exchange or a Participating Exchange; or in constructing or calculating the value of any index or indexed product. Additionally, you agree you will not, and will not permit any other individual or entity to, (i) use Exchange Market Data in any way so as to compete with an Exchange or to assist or allow a third party to compete with an Exchange; or (ii) use that portion of Exchange Market Data which relates to any product of a Participating Exchange in any way so as to compete with that Participating Exchange or to assist or allow a third party to compete with such Participating Exchange.

You must provide upon request of the broker through which your firm has obtained access to Market Data, or the applicable exchange, information demonstrating your firm’s use of the Market Data in accordance with this Notification. Each applicable exchange reserves the right to terminate a market user’s access to Market Data for any reason. You also agree that you will cooperate with an exchange and permit an exchange reasonable access to your premises should an exchange wish to conduct an audit or review connected to the distribution of Market Data

NEITHER AN EXCHANGE, NOR ANY PARTICIPATING EXCHANGE, NOR THE BROKER, NOR THEIR RESPECTIVE MEMBERS, SHAREHOLDERS, DIRECTORS, OFFICERS, EMPLOYEES OR AGENTS, GUARANTEE THE TIMELINESS, SEQUENCE, ACCURACY OR COMPLETENESS OF THE DESIGNATED MARKET DATA, MARKET INFORMATION OR OTHER INFORMATION FURNISHED NOR THAT THE MARKET DATA HAVE BEEN VERIFIED. YOU AGREE THAT THE MARKET DATA AND OTHER INFORMATION PROVIDED IS FOR INFORMATION PURPOSES ONLY AND IS NOT INTENDED AS AN OFFER OR SOLICITATION WITH RESPECT TO THE PURCHASE OR SALE OF ANY SECURITY OR COMMODITY

NEITHER AN EXCHANGE, NOR ANY PARTICIPATING EXCHANGE, NOR THE BROKER NOR THEIR RESPECTIVE MEMBERS, SHAREHOLDERS, DIRECTORS, OFFICERS, EMPLOYEES OR AGENTS, SHALL BE LIABLE TO YOU OR TO ANY OTHER PERSON, FIRM OR CORPORATION WHATSOEVER FOR ANY LOSSES, DAMAGES, CLAIMS, PENALTIES,

COSTS OR EXPENSES (INCLUDING LOST PROFITS) ARISING OUT OF OR RELATING TO THE MARKET DATA IN ANY WAY, INCLUDING BUT NOT LIMITED TO ANY DELAY, INACCURACIES, ERRORS OR OMISSIONS IN THE MARKET DATA OR IN THE TRANSMISSION THEREOF OR FOR NONPERFORMANCE, DISCONTINUANCE, TERMINATION OR INTERRUPTION OF SERVICE OR FOR ANY DAMAGES ARISING THEREFROM OR OCCASIONED THEREBY, DUE TO ANY CAUSE WHATSOEVER, WHETHER OR NOT RESULTING FROM NEGLIGENCE ON THEIR PART. IF THE FOREGOING DISCLAIMER AND WAIVER OF LIABILITY SHOULD BE DEEMED INVALID OR INEFFECTIVE, NEITHER AN EXCHANGE, NOR ANY PARTICIPATING EXCHANGE, NOR THE BROKER, NOR THEIR RESPECTIVE SHAREHOLDERS, MEMBERS, DIRECTORS, OFFICERS, EMPLOYEES OR AGENTS SHALL BE LIABLE IN ANY EVENT, INCLUDING THEIR OWN NEGLIGENCE, BEYOND THE ACTUAL AMOUNT OF LOSS OR DAMAGE, OR THE AMOUNT OF THE MONTHLY FEE PAID BY YOU TO BROKER, WHICHEVER IS LESS. YOU AGREE THAT NEITHER AN EXCHANGE, NOR ANY PARTICIPATING EXCHANGE, NOR THE BROKER NOR THEIR RESPECTIVE SHAREHOLDERS, MEMBERS, DIRECTORS, OFFICERS, EMPLOYEES OR AGENTS, SHALL BE LIABLE TO YOU OR TO ANY OTHER PERSON, FIRM OR CORPORATION WHATSOEVER FOR ANY INDIRECT, SPECIAL OR CONSEQUENTIAL DAMAGES, INCLUDING WITHOUT LIMITATION, LOST PROFITS, COSTS OF DELAY, OR COSTS OF LOST OR DAMAGED DATA.

## NOTICE REGARDING AVERAGE PRICE SYSTEM (“APS”)

You should be aware that certain US and non-US exchanges, including the CME and CBOT, may now or in the future allow a futures commission merchant (“FCM”) such as R.J. O’Brien & Associates, LLC to confirm trades executed on such exchanges to some or all of their customers on an average price basis regardless of whether the exchanges have average price systems of their own. Average prices that are not calculated by an exchange system will be calculated by your FCM. In either case, trades that are confirmed to you at average prices will be designated as such on your daily and monthly statements.

APS enables a clearing firm to confirm to customers an average price when multiple execution prices are received on an order or series of orders for the same accounts. For example, if an order transmitted by an account manager on behalf of several customers is executed at more than one price, those prices may be averaged and the average may be confirmed to each customer. Customers may choose whether to use APS, and may request that APS be used for discretionary or non-discretionary accounts.

An order subject to APS must be for the same commodity. An APS order may be used for futures, options or combination transactions. An APS order for futures must be for the same commodity and month, and for options, it must be for the same commodity, month, put/call and strike.

An APS indicator will appear on the confirmation and monthly statement for a customer whose positions have been confirmed at an average price. This indicator will notify the customer that the confirmed price represents an average price or rounded average price.

The average price is not the actual execution price. APS will calculate the same price for all customers that participate in the order.

APS may be used when a series of orders are entered for a group of accounts. For example, a bunched APS order (an order that represents more than one customer account) executed at 10:00 a.m. could be averaged with a bunched APS order executed at 12:00 p.m. provided that each of the bunched orders is for the same accounts. In addition, market orders and limit orders may be averaged, as may limit orders at different prices, provided that each order is for the same accounts.

The following scenario exemplifies what occurs if an APS order is only partially executed. At 10:00 a.m. an APS order to buy 100 Dec S & P 500 futures contracts is transmitted at a limit price of 376.00; 50 are executed at 376.00, and the balance is not filled. At 12:00 p.m. an APS order to buy 100 Dec S & P 500 futures contracts is transmitted at a limit price of 375.00; 50 are executed at 375.00, and the balance is not filled. Both orders are part of a series for the same group of accounts. In this example, the two prices will be averaged. If the order was placed for more than one account, the account controller must rely on pre-existing allocation procedures to determine the proportions in which each account will share in the partial fill.

Upon receipt of an execution at multiple prices for an order with an APS indicator, an average will be computed by multiplying the execution prices by the quantities at those prices divided by the total quantities. An average price for a series of orders will be computed based on the average prices of each order in that series. The actual average price or the average price rounded to the next price increment may be confirmed to customers. If a clearing member confirms the rounded average price, the clearing member must round the average price up to the next price increment for a sell order. The rounding process will create a cash residual of the difference between the actual average price and the rounded average price that must be paid to the customer.

APS may produce prices that do not conform to whole cent increments. In such cases, any amounts less than one cent may be retained by the clearing member. For example, if the total residual to be paid to a customer on a rounded average price for 10 contracts is \$83.333333, the clearing member may pay \$83.33 to the customer.

If you would like more information on APS orders, please contact R.J. O'Brien & Associates, LLC's Compliance Department.

### **DISCLOSURE ON PAYMENT FOR ORDER FLOW**

When firms provide execution services to customers, either in conjunction with clearing services or in an execution only capacity, they may, in some circumstances, direct orders to unaffiliated market makers, other executing firms, individual floor brokers or floor brokerage groups for execution. When such unaffiliated parties are used, they may, where permitted, agree to price concessions, volume discounts or refunds, rebates or similar payments in return for receiving such business. Likewise, on occasion, in connection with exchanges that permit pre-execution discussions and "off-floor" transactions such as block trading, exchanges of physicals, swaps or options for futures or equivalent transactions, a counterparty solicited to trade opposite customers of an executing firm may make payments described above and/or pay a commission to the executing firm in connection with that transaction. This could be viewed as an apparent conflict of interest. In order to determine whether transactions executed for your account are subject to the above circumstances, please contact your executing firm account representative.

### **CROSS TRADE CONSENT**

R.J. O'Brien & Associates, LLC, its officers, its directors, its employees or its affiliates or other customers of R.J. O'Brien & Associates, LLC or of the servicing floor broker may be from time to time on the opposite side of orders for physicals or for purchase or sale of futures contracts and option contracts placed for your Account in conformity with regulations of the Commodity Futures Trading Commission and the by-laws, rules and regulations of the applicable market (and its clearing organization, if any) on which such order is executed.

## DIRECT ORDER TRANSMITTAL CLIENT DISCLOSURE STATEMENT

This statement applies to the ability of authorized customers of R.J. O'Brien & Associates, LLC ("R.J. O'Brien") to place orders for foreign futures and options transactions directly with non-US entities (each, an "Executing Firm") that execute transactions on behalf of R.J. O'Brien's customer omnibus accounts.

Please be aware of the following should you be permitted to place the type of orders specified above:

- The orders you place with an Executing Firm are for R.J. O'Brien's customer omnibus account maintained with a foreign clearing firm. Consequently, R.J. O'Brien may limit or otherwise condition the orders you place with the Executing Firm.
- You should be aware of the relationship of the Executing Firm and R.J. O'Brien. R.J. O'Brien may not be responsible for the acts, omissions, or errors of the Executing Firm, or its representatives, with which you place your orders. In addition, the Executing Firm may not be affiliated with R.J. O'Brien. If you choose to place orders directly with an Executing Firm, you may be doing so at your own risk.
- It is your responsibility to inquire about the applicable laws and regulations that govern the foreign exchanges on which transactions will be executed on your behalf. Any orders placed by you for execution on that exchange will be subject to such rules and regulations, its customs and usages, as well as any local laws that may govern transactions on that exchange. These laws, rules, regulations, customs and usages may offer different or diminished protection from those that govern transactions on US exchanges. In particular, funds received from customers to margin foreign futures transactions may not be provided the same protections as funds received to margin futures transactions on domestic exchanges. Before you trade, you should familiarize yourself with the foreign rules which will apply to your particular transaction. United States regulatory authorities may be unable to compel the enforcement of the rules of regulatory authorities or markets in non-US jurisdictions where transactions may be effected.
- It is your responsibility to determine whether the Executing Firm has consented to the jurisdiction of the courts in the United States. In general, neither the Executing Firm nor any individuals associated with the Executing Firm will be registered in any capacity with the Commodity Futures Trading Commission. Similarly, your contacts with the Executing Firm may not be sufficient to subject the Executing Firm to the jurisdiction of courts in the United States in the absence of the Executing Firm's consent. Accordingly, neither the courts of the United States nor the Commission's reparations program will be available as a forum for resolution of any disagreements you may have with the Executing Firm, and your recourse may be limited to actions outside the United States.

**Unless you object within five (5) days by giving notice as provided in your customer agreement after receipt of this disclosure, R.J. O'Brien will assume your consent to the aforementioned conditions.**

## FOREIGN TRADER DISCLOSURE STATEMENT

In accordance with Rules 15.05 and 21.03 of the Commodity Futures Trading Commission (“CFTC”), 17 C.F.R. §§15.05 and 21.03, we are considered to be your agent for purposes of accepting delivery and service of communications from or on behalf of the CFTC regarding any commodity futures contracts or commodity option contracts which are or have been maintained in your account(s) with us. In the event that you are acting as agent or broker for any other person(s), we are also considered to be their agent, and the agent of any person(s) for whom they may be acting as agent or broker, for purposes of accepting delivery and service of such communications. Service or delivery to us of any communication issued by or on behalf of the CFTC (including any summons, complaint, order, subpoena, special call, request for information, notice, correspondence or other written document) will be considered valid and effective service or delivery upon you or any person for whom you may be acting, directly or indirectly, as agent or broker.

You should be aware that Rule 15.05 also provides that you may designate an agent other than R.J. O’Brien & Associates, LLC. Any such alternative designation of agency must be evidenced by a written agency agreement which you must furnish to us and which we, in turn, must forward to the CFTC. If you wish to designate an agent other than us, please contact us in writing. You should consult 17 C.F.R. § 15.05 for a more complete explanation of the foregoing.

Upon a determination by the CFTC that information concerning your account(s) with us may be relevant in enabling the CFTC to determine whether the threat of a market manipulation, corner, squeeze, or other market disorder exists, the CFTC may issue a call for specific information from us or from you. In the event that the CFTC directs a call for information to us, we must provide the information requested within the time specified by the CFTC. If the CFTC directs a call for information to you through us as your agent, we must promptly transmit the call to you, and you must provide the information requested within the time specified by the CFTC. If any call by the CFTC for information regarding your account(s) with us is not met, the CFTC has authority to restrict such account(s) to trading for liquidation only. You have the right to a hearing before the CFTC to contest any call for information concerning your account(s) with us, but your request for a hearing will not suspend the CFTC’s call for information unless the CFTC modifies or withdraws the call. Please consult 17 C.F.R. §21.03 for a more complete description of the foregoing (including the type of information you may be required to provide).

Certain additional regulations may affect you. Part 17 of the CFTC Regulations, 17 C.F.R. Part 17, requires each futures commission merchant and foreign broker to submit a report to the CFTC with respect to each account carried by such futures commission merchant or foreign broker which contains a reportable futures position. (Specific reportable position levels for all futures contracts traded on U.S. exchanges are established in Rule 15.03.) In addition, Part 18 of the CFTC Regulations, 17 C.F.R. Part 18, requires all traders (including foreign traders) who own or control a reportable futures or options position and who have received a special call from the CFTC to file a Large Trader Reporting Form (Form 103) with the CFTC within one day after the special call upon such trader by the CFTC. Please consult 17 C.F.R. Parts 17 and 18 for more complete information with respect to the foregoing.

**NOTICE TO CLIENTS**  
**POSITION LIMIT AND LARGE OPEN POSITION REPORTING REQUIREMENTS**  
**FOR OPTIONS AND FUTURES TRADED ON THE HONG KONG EXCHANGES**

The Hong Kong regulatory regime imposes position limit and reportable position requirements for stock options and futures contracts traded on the Stock Exchange of Hong Kong and on the Hong Kong Futures Exchange.

These requirements are set out in the Hong Kong Securities and Futures (Contracts Limits and Reportable Positions) Rules (as amended, the “Rules”) made by the Securities and Futures Commission (“SFC”) under the Securities and Futures Ordinance. The Rules impose monitoring and reporting obligations with regard to large open positions. Where you are holding a reportable position for your client, you must disclose the identity of the client. For the purposes of the Rules, a client is the person who is ultimately responsible for originating instructions you receive for transactions - i.e., the transaction originator.

Further guidance on the Rules and what they require is set out in the SFC’s Guidance Note on Position Limits and Large Open Position Reporting Requirements. Copies of the Rules and Guidance Note can be downloaded from the SFC’s website ([www.sfc.hk](http://www.sfc.hk)).

**Purpose of the Rules**

The purpose of the Rules is to avoid potentially destabilizing market conditions arising from an over-concentration of futures/options positions accumulated by a single person or group of persons acting in concert, and to increase market transparency.

Some of the major requirements of the Rules and Guidance Note are summarized below. However, you should review the Rules and Guidance Note in their entirety, and consult with your legal counsel in order to ensure that you have a full understanding of your obligations in connection with trading in Hong Kong.

Please note that the Rules make you responsible for ensuring that you comply with the Rules. Section 8 of the Rules makes it a criminal offence not to comply (subject to a maximum fine of HK\$100,000 and imprisonment for up to 2 years).

In 2004, the SFC investigated 6 breaches of the Rules, including a breach by a non-Hong Kong fund manager which was referred to the fund manager’s overseas regulator. It should be noted that the SFC has expressly stated that it is not sympathetic to claims by overseas persons that they are not aware of the Hong Kong restrictions, and that a failure to trade within the limits or make reports reflects badly on a firm’s internal control measures (which might itself lead to disciplinary action).

**Position Limits**

The Rules say that you may not hold or control futures contracts or stock options contracts in excess of the prescribed limit, unless you have obtained the prior authorization of the Hong Kong regulators. For example, the prescribed limit for Hang Seng Index futures and options contracts and Mini-Hang Seng Index futures and options contracts is 10,000 long or short position delta limit for all contract months combined, provided the position delta for the Mini-Hang Seng Index futures contracts or Mini-Hang Seng Index options contracts shall not at any time exceed 2,000 long or short for all contract months combined. For many futures contracts and stock options contracts, the position limit is set at 5,000 contracts for any one contract/expiry month.



*The prescribed limit for each contract traded on the Hong Kong exchanges is set out in the Rules*

### **Reportable Positions**

If you hold or control an open position in futures contracts or stock options contracts in excess of the specified level, the Rules require you to report that position in writing to the relevant Hong Kong exchange (i) within one day (ignoring Hong Kong public holidays and Saturdays) of first holding or controlling that position, and (ii) on each succeeding day on which you continue to hold or control that position.

The specified reporting level for each contract traded on the Hong Kong exchanges is set out in the Rules. The report must state:

- (a) the number of contracts held or controlled in respect of the position in each relevant contract month; and
- (b) if the position is held or controlled for a client, the identity of the client, and the number of contracts held or controlled for such person in respect of the reportable position in each relevant contract month.

### **Scope of the Rules**

You should note:

- The prescribed limits and reportable position requirements apply to all positions held or controlled by any person, including positions in any account(s) that such person controls, whether directly or indirectly. The SFC takes the view that a person is regarded as having control of positions if, for example, the person is allowed to exercise discretion to trade or dispose of the positions independently without the day-to-day direction of the owner of the positions. (Section 4 of the Rules and Para. 2.6 of the Guidance Note)
- If a person holds or controls positions in accounts at more than one intermediary, the Rules require him to aggregate the positions for the purposes of applying the prescribed limits and reportable position requirements. (Para. 6.1 of the Guidance Note)
- The person holding or controlling a reportable position in accounts at more than one intermediary has the sole responsibility to notify the relevant exchange of the reportable position. The person may request its intermediary to submit the notice of the reportable position. If a firm agrees to submit the notice on his behalf, the person should provide to the firm its total positions held at other intermediaries so that the firm can submit the notice of the reportable position. Alternatively, the person should ask all of his intermediaries to report the positions in each of the accounts separately to the exchange, even if the positions in the individual accounts do not reach the reportable level. (Paras. 4.6 and 6.2 of the Guidance Note)
- Where you are holding a reportable position for your client, the Rules say that you must disclose the identity of the client. The SFC's view is that, for the purposes of the Rules, a client is the person who is ultimately responsible for originating the transaction instructions - i.e., the transaction originator. (Para. 6.4 of the Guidance Note)
- The Rules apply separately to the positions held by each of the underlying clients of an omnibus account, except where the omnibus account operator has discretion over the positions in which case the account operator must also aggregate these positions with his own positions. Positions held by different underlying clients should not be netted off for purposes of calculating and reporting reportable positions or determining compliance with the prescribed limits. (Para. 6.8 of the Guidance Note)



## ERISA 408(b)(2) DISCLOSURE

This disclosure is for those who have, or act on behalf of, pension plans governed by the Employee Retirement Income Security Act of 1974, as amended (“ERISA”) or similar laws.

**Overview.** ERISA requires that all service arrangements with ERISA plans satisfy certain minimum regulatory requirements. Often service arrangements are structured to comply with the minimum requirements contained in section 408(b)(2) of ERISA. New U.S. Department of Labor rules under section 408(b)(2) require certain service providers to now furnish disclosure about their services and compensation arrangements to the responsible plan fiduciary of their ERISA plan clients. Based on the guidance and interpretations available in respect to the disclosure requirement of 408(b)(2), this document provides a high-level summary and is intended to consolidate those disclosures for all relevant lines of business, it is not intended to provide information specific to any particular plan and should be read in conjunction with other disclosures, notices, agreements and materials furnished by RJO and relevant third parties that will provide further detailed information regarding relevant services, fees and other activities. RJO will modify the 408(b)(2) disclosure to reflect subsequent guidance and interpretation of the disclosure rule, as well as any changes in the contracts and arrangements for services provided. If you have questions or need further information, please contact us.

If you are not the responsible plan fiduciary authorized to engage covered service providers for a plan, please forward this 408(b)(2) disclosure to the appropriate responsible plan fiduciary. In addition, if you are a client of an introducing broker, you should contact your introducing broker for any required disclosures.

**Regulatory Status of RJO.** RJO is registered with the Commodity Futures Trading Commission (“CFTC”) as a Futures Commission Merchant (“FCM”), is a member of the National Futures Association (“NFA”) and is a member of certain principal U.S. contract markets. RJO does not expect to be acting in an advisory capacity (for purposes of the Investment Adviser Act of 1940 or any state law) or as a fiduciary within the meaning of Section 3(21) of ERISA with respect to any of the services described below.

**Disclaimer.** This 408(b)(2) disclosure does not itself constitute an agreement for services; it is not intended to replace or amend any agreement with RJO; it does not constitute a guarantee with respect to the pricing of any services; and is not intended to constitute legal advice. In the event of a discrepancy between the information contained in these materials and any agreement with RJO, the terms of the agreement will govern. We have prepared the foregoing disclosure in good faith and reasonable diligence.

<b>Service</b>	<b>Description</b>	<b>Compensation</b>
<b>Futures</b>	RJO provides execution and clearing related services in connection with futures, options on futures and other similar transactions. The customer Account Agreement and all applicable amendments thereto, including but not limited to any fee or commission schedule, executed between RJO and a customer or the responsible plan fiduciary describe the terms and conditions governing the execution, clearing and/or carrying by RJO of the purchase or sale of commodity futures and option and forward contracts on commodity futures.	<p>Direct Compensation: RJO generally will receive a commission with respect to any futures or options transaction in which RJO acts as the executing broker or clearing broker. The commissions and other charges RJO may receive in connection with futures and options on futures execution and clearing will be disclosed in the Account Agreement (including any fee or commission schedule related thereto) or otherwise in a written communication, which may be delivered by email, delivered to the customer or its responsible plan fiduciary.</p> <p>Indirect Compensation: As described in the Account Agreement, RJO may have been granted the right to pledge, re-pledge, hypothecate, re-hypothecate, engage in repurchase or reverse repurchase transactions with respect to, invest or loan, either separately or with the property of other customers, to either ourselves as broker or to others, any other property held by us on margin for their accounts or as margin or collateral for futures contracts. Because Commodity Futures Trading Commission (“CFTC”) Regulation 1.25 (which may be amended by the CFTC from time to time) currently limits the instruments in which we can invest collateral, the return that we may earn by investing that collateral will be limited by the nature of those instruments, the returns of which will vary and are generally dependent on prevailing interest rates.</p>
Foreign Exchange Transactions and Certain Other Cleared Products	RJO may act as a clearing agent in connection with foreign exchange and certain other transactions. Such services are described in the foreign exchange give-up agreements or other respective agreements.	Direct Compensation: When acting in this capacity, RJO will earn the fee or compensation that is disclosed in the foreign exchange give-up agreement or other respective agreement, which may include the clearing and administrative fees that are detailed in a fee schedule that is negotiated with and provided to the customer or the responsible plan fiduciary.

# A GUIDE TO THE STRUCTURE AND MARKET TERMINOLOGY OF THE LONDON METAL EXCHANGE

[Revised 21.2.2006]

## INTRODUCTION AND PURPOSE

This document is designed to provide customers of the London Metal Exchange (LME) with an overview of the structure of the LME, market terminology, and order execution. It is not a comprehensive trading guide, nor a complete guide to market terminology. Customers should always ensure that their requirements are explained in detail to the member responsible for order execution.

## THE LME

### Principal Nature

There are two types of contracts traded on the LME - Exchange Contracts and Client Contracts. Exchange Contracts are contracts between clearing members of the LME. Client Contracts are contracts between customers and ring dealing members (RDMs), or associate broker clearing members (ABCMs), or associate broker members (ABMs)<sup>1</sup>. Only RDMs, ABCMs and ABMs may issue Client Contracts. Open Position Statements issued to clients must state clearly '**THIS IS AN LME REGISTERED CLIENT CONTRACT**'. Contract criteria relating to LME contracts, including metal/plastic specifications, acceptable currencies, prompt dates, option strike prices for metals etc. are detailed in the LME rulebook and appropriate notices.

Exchange Contracts are traded between members, **matched** in the LME matching and clearing system (LMEMS) and margined by LCH.Clearnet (LCH). Client Contracts are **registered** at the LCH but margining arrangements are left to members to agree with their customers (subject to LME rules).

All LME contracts are between parties acting as principals. This prevents any party entering into an LME Contract as agent for someone else but does not prevent an agent effecting a contract between two parties if the resulting LME contract is between disclosed parties, each acting as a principal. It is an essential requirement of an LME Client Contract that one party must be an RDM, ABCM or ABM. A list of members is available from the LME, and on the LME website: [www.lme.com](http://www.lme.com). A principal relationship does not mean that members do not take on quasi-fiduciary responsibilities when they effect trades for customers. In particular, if a member undertakes to deliver a particular service, for example deal a specific number of lots 'in the Ring' (see

<sup>1</sup>For the purposes of this document these categories of members will be referred to as LME members, members or by the appropriate abbreviation

Continued on next page

below), then it should take care to ensure that it complies with all the terms of such a transaction.

In respect of Exchange Contracts, an LME broker buying metal or plastic under an Exchange Contract from another LME broker cannot do so as agent for his customer. Where an LME broker buys metal or plastic under an Exchange Contract with a view to selling that metal or plastic to his customer, this is achieved by entering into a back-to-back Client Contract with the customer. Brokers and customers can agree the conditions that apply to their Client Contracts. For example, a customer may make it a condition of his Client Contract that the broker must enter into a back-to-back Exchange Contract for the metal or plastic being bought or sold. This does not make the customer a party to the Exchange Contract but does create additional duties and obligations owed by the broker under the Client Contract.

Customers should be clear about conditions that apply to their Client Contracts and about the obligations and duties that the broker owes as a result of those conditions.

Brokers should be clear about the duties and obligations they owe as a result of conditions attaching to their Client Contracts. They should also be clear about the duties they owe to their customers under the FSA's Conduct of Business Rules (COB).

### **Dual Capacity**

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

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

### **Trading on the LME**

Trading takes place on the LME by open outcry in the rings and kerbs, between members in the inter-office, and over the Exchange's electronic trading system LME Select.

### **Open Outcry**

Continued on next page

Historically, during ring and kerb sessions, the majority of customer business reflects prices traded in the open outcry sessions. Customers can follow the market activity by monitoring quoted and traded prices disseminated via the LME market data system (MDS), or by listening to the simultaneous floor commentary provided by member(s). The MDS publishes prices traded during ring and kerb times on price vendor information services such as Reuters.

Members can continue to 'make a market' when requested by a customer during the ring and kerb sessions, although this is entirely at the member's discretion. Alternatively, the customer can decide whether to place an order using the 'order styles' mentioned below.

### **Inter-office**

Inter-office trading is conducted between members by telephone or by electronic means. On contacting an LME member for a quote, customers will usually be provided with the member's current bid and offer. The customer may trade on this quote, call another member in an attempt to improve the quote, leave a resting order with a member, or wait and monitor prices on the LME market data system. If an order cannot be filled from the member's book, it may be executed via a back-to-back Exchange Contract agreed via a telephone deal with another member or executed via an electronic trading system.

### **LME Select**

LME Select allows members to trade LME futures contracts in metals and plastics, traded options and TAPOs<sup>2</sup>, and an Index future and option. Some brokers offer their customers an order-routing facility via an API<sup>3</sup> where they can view Select prices, execute trades, and place resting orders. All trading on LME Select is in US dollars.

LME Select replaces neither inter-office trading nor trading in the ring. Depending on the time of day, it is possible for members to deal by telephone or electronically in the inter-office, by LME Select, or in the rings. Customers should specify which mechanism their broker should use to effect an order, where they have a preference.

Firm prices of the best bid and offer available on LME Select, the total volumes available at these prices, and the price and volume of each trade transacted are distributed to and displayed in real time by information vendors. Only LME Select prices are displayed, not those of other third party electronic trading systems providing LME prices. Only RDMs and ABCMs are eligible to become LME Select Participants and to have direct access to the system. Customers may effect back-to-back Client Contracts with RDMs and

<sup>2</sup>TAPO traded average price option

<sup>3</sup>API Application Protocol Interface

Continued on next page

---

ABCMs based upon prices available on LME Select, whether on the telephone or via electronic order-routing systems.

## **ORDER STYLES**

### **Ring**

**Customer orders are not traded in the rings or kerbs**, so an order using the term ‘in/on/during the ring/kerb’ will be executed on the basis of the prices traded/quoted during the particular session. If a customer requires their order to be ‘shown’ or traded across the ring/kerb then they should make this requirement known to their executor, who may or may not accept this as a term of the order. The equivalent Exchange Contract for a customer order may not replicate its terms. As the customer is **not** a party to any Exchange Contracts i.e. those traded in open outcry between members in the ring/kerb sessions, in specifying ring/kerb, the customer is merely identifying a pricing mechanism. A member which undertakes to match a price traded in the ring/kerb is not necessarily undertaking that it will trade during that ring/kerb, only that it may do so. However, a customer may place an order with the specific request that the member trades an Exchange Contract replicating its order in the ring. In such circumstance the RDM can only trade this order by open outcry in the ring.

If a customer trades at the prevailing market quote proffered in the ring/kerb, their executor is not necessarily obliged to effect an Exchange Contract at the same price. This can lead to situations where the customer has traded at the prevailing market quote, without that same price trading in open outcry across the floor of the Exchange. However, if the instructions from the customer are to achieve a specific price i.e. close of ring 2, then this is the price that should be given, if that specific order is accepted.

### **Market**

In normal circumstances a market order is one executed on a timely basis at the prevailing market price. As mentioned above, at certain times of the business day, trading is taking place simultaneously in the ring or kerb, on LME Select, and in the inter-office market. Traditionally, when open outcry trading is in session, the market is defined by activity within the ring/kerb. At other times, the market is split between inter-office trading and trading on LME Select. During inter-office sessions, indicative quotes are available on the MDS; firm prices are available on LME Select and the LME Select page on information vendors’ systems. The indicative prices might not be available to all parties.

Continued on next page

## **Best**

Order styles on the LME using the word 'best' confer some discretion upon the members when executing the order, requiring them to use their 'best endeavours' on the customer's behalf. The extent of the discretion is fixed by the terms of the order. This type of order is distinct from 'best execution' as defined by the FSA.

Best orders may be executed both in rings/kerbs, inter-office and on LME Select. Inter-office trades rely upon the members' skill in determining the level of the market at any particular time. Best orders received during ring/kerb times may not result in the customer receiving the 'best' price achieved during the session if the price improves after the member has booked the metal or plastic intended to fill the order. At any given time, the best price on LME Select will be displayed on the system and by the information vendors. Customers should be aware that depending on market conditions, the best price may move during the period from when the order was placed and when it was executed.

## **Close**

Most orders placed 'on the close' are for either the close of the second ring (official LME prices) or the final kerb (closing prices). Both these prices are demonstrable because of the publication of official and closing prices. Closing prices for other sessions are harder to determine, although the LME does publish unofficial prices which are established at the close of the fourth ring. In all circumstances, customers and members need to agree the style of execution i.e. bid/offer, mean or traded price. Members may not always be able to guarantee execution (price or volume) due to prevailing market conditions. A closing price on LME Select is the last price traded before the system closes.

## **Open**

Customers placing orders to trade on the opening of a market session must provide clear instructions to the LME member which indicate how this order should be activated i.e. basis the opening bid/offer or basis the first trade in the session. Customers will also need to inform their executor of their requirements if the executor is unable to fill the order basis the 'opening' price in its entirety, due to market constraints such as insufficient liquidity. Customers may place orders with members for LME Select that can be placed into the system for activation when the market opens.

## **Resting Orders**

When placing resting orders such as 'good 'til cancelled' ('GTC', or any derivations thereof) or stop loss orders, customers should ensure that they are in agreement with their executor's definition of the 'trigger' point of the order. Usually, this is interpreted as being the point when the order price is seen to be trading in the market, but it is possible to request the order be activated when the order level is either bid or offered as appropriate, via the prevailing market quote. Stop loss orders become market orders when a trade, or a bid or an offer triggers the stop, with members then executing the order at the current market price.

Continued on next page

It is possible for a customer not to receive a 'fill' on a resting order despite the 'trigger' point being 'touched'. This could be due to a number of circumstances such as order priority, illiquidity, prevailing market conditions etc. Whatever the reason, the executor should be able to provide the customer with a full explanation of why it was unable to fill the order.

Customers should be aware that resting orders might be activated during periods of illiquidity in the market. As previously mentioned, this could result in the trade not being filled, or for 'stop' orders, a worse fill than anticipated ('slippage'). Customers should ensure the executor is fully aware of their requirements regarding the execution of an order, and adheres to any limitations, especially if the customer is not in contact with the market/member when the trigger point is reached.

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

### **Conclusion**

The above order styles do not represent all possible methods of order execution on the LME. Members and customers should ensure that orders are communicated in meaningful terms that deliver the required execution in accordance with LME rules.