

To: All Members, Warehouse Companies and London Agents

Ref: 13/208: A201: W076

Date: 1 July 2013

Subject: **CONSULTATION ON CHANGES TO LME POLICY REGARDING THE APPROVAL OF WAREHOUSES IN RELATION TO DELIVERY OUT RATES**

## Summary

1 As previously communicated to the market, the London Metal Exchange (LME) has continued actively to monitor the development of queues at the warehouses within the LME network. In particular, since the start of 2013, a further comprehensive internal review has been carried out. This Notice summarises the conclusions of this process, presents a proposed modification to the warehousing requirements arising from the review, and invites comments from market participants.

## Background

2 In 2010, the LME commissioned Europe Economics to prepare an independent assessment for the LME of whether the then current requirements in the LME Policy Regarding the Approval of Warehouses for rates of physical delivery out were satisfactory. The Europe Economics report made several proposals of potential remedial action to ease the pressure of large queues at LME warehouses, as well as recommending that the LME carry out routine six-monthly reviews of delivery out rates.

3 Since the review findings were published in Notice 11/141: A135 : W092 dated 27 May 2011, the LME has adopted the following changes to the LME Policy Regarding the Approval of Warehouses in relation to delivery out rates:

- a) Notice 11/335 : A327 : W174 sets out the background to the increase in the minimum load-out rates that took effect on 1 April 2012.
- b) Notice 12/211 : A212 : W113 confirmed the additional delivery out rates for nickel and tin that took effect on 1 April 2013.
- c) Notice 12/326 : A324 : W165 introduced additional requirements on warehouse companies to address the effect that long queues for one metal may have on the availability of other metals, and which also took effect on 1 April 2013.

4 While these initiatives have increased access to lower-volume metals, it is clear from stock data that they have failed to resolve the persistently long waiting times for certain metals in particular locations. Indeed, in several locations, stock build-up has increased significantly, with a corresponding increase in queue length at these warehouses. This has led to stated concerns from various sectors of the industry in respect of the existence of long waiting times for the delivery of certain metals out of



several LME listed warehouses, and the consequent impact on physical location premia.

5 In reviewing warehouse arrangements, the LME has previously considered a complete list of alternative policy options for delivery out rates, but it was not deemed appropriate to implement any option (other than those referenced in paragraph 3 of this Notice) following feedback from the market. However, in light of the persistence of the situation due to continuing macroeconomic factors, and the negative impact on market participants, the LME has decided to revisit the most workable of these options, and open a consultation process with the industry as a whole.

6 Furthermore, this is an appropriate opportunity to address the concerns articulated by some market players in respect of re-warranting of LME metal. Re-warranting of LME metal is an important function of the market, particularly where large queues exist, as market participants must have the ability to react to a change in market conditions over a reasonable timeframe. A decision to take delivery due to current market prices may change if market conditions change whilst metal sits in a lengthy queue, and participants with reasonable cause should be allowed the opportunity to react accordingly. The LME has in place strict monitoring procedures to ensure that all re-warranting of metal is undertaken for valid economic reasons. The LME has complete oversight of the re-warranting process and is confident that there is no abuse of this process which is contributing to the length of load-out queues.

7 In the interests of stimulating an informed debate and encouraging responses from all interested parties, the LME sets out in this Notice its preferred proposal (the “Linked Load-In / Load-Out Proposal”) for changes to the LME policy in relation to load-out rates, and seeks to lay out the potential positive and negative impacts of such a change. For the avoidance of doubt, the Board of the LME, while noting stated user opinions, has not yet formed a conclusive view on whether any action would be in the best interests of the market, and invites broad feedback on this topic. However, to the extent that action is taken, and following extensive review work, the LME believes that a proposal broadly consistent with that specified in this Notice would best balance the competing demands of LME members, the metals industry and warehouse operators.

## **The Linked Load-In / Load-Out Proposal**

### **8 Principle**

The general principle of this requirement is to link load-in and load-out for Warehouses with queues of greater than 100 calendar days.

### **9 Definitions**

A Warehouse is all of the LME-licensed storage facilities operated by a particular warehousing company in a particular LME good delivery location.

In relation to a particular Warehouse, a Business Day is any day on which that particular Warehouse is operating and subject to the current LME minimum load-out requirement.



The Preliminary Calculation Period shall be the period between the date of this Notice (1 July 2013) and 31 March 2014, inclusive.

The First Calculation Period shall be the period between 1 April 2014 and 30 June 2014, inclusive.

Each subsequent Calculation Period shall be the three months immediately following the preceding Calculation Period. By way of example, the Second Calculation Period shall be the period between 1 July 2014 and 30 September 2014, inclusive (being the three months immediately following the First Calculation Period).

The Preliminary Discharge Period, which will apply in relation to the Preliminary Calculation Period, will be the three month period between 1 May 2014 and 31 July 2014, inclusive.

For each subsequent Calculation Period, the related Discharge Period (i.e. the period during which the Cumulative Incremental Load-Out Requirement calculated in accordance with paragraph 11 below must be met) shall be the three month period starting on the date one calendar month following the end of that Calculation Period. By way of example, the First Discharge Period shall be the period between 1 August 2014 and 31 October 2014, inclusive (being the three month period starting on the date one calendar month following the end of the First Calculation Period).

In relation to a particular Warehouse on any given Business Day, the Normal Daily Minimum Load-Out Rate is the amount of metal required to be loaded out according to the LME requirements in force prior to the adoption of this Notice. For the avoidance of doubt:

- a) The basis for determining the Normal Daily Minimum Load-Out Rate shall be the LME Policy Regarding the Approval of Warehouses, revised 1 April 2013.
- b) If, on the Business Day in question, a Warehouse is required to make an additional load-out of non-dominant metal (pursuant to Notice 12/326 : A324 : W165), such additional load-out will be counted towards the Normal Daily Minimum Load-Out Rate for the Business Day in question.
- c) If, on the Business Day in question, a Warehouse is required to make an additional load-out of nickel and tin (pursuant to Notice 12/211 : A212 : W113), such additional load-out will be counted towards the Normal Daily Minimum Load-Out Rate for the Business Day in question.
- d) Load-out of cobalt and roasted molybdenum concentrate (RMC) will not be counted towards the Normal Daily Minimum Load-Out Rate, given that these metals are treated separately for the purposes of Warehouse load-out rates.

## 10 Affected Warehouses

On any given Business Day, an Affected Warehouse is a Warehouse with a queue of greater than 100 calendar days. Queue lengths will continue to be measured and



reported to the LME by warehouse operators, with the LME continuing to exercise oversight in respect of such measurements. For the avoidance of doubt, to the extent that a Warehouse has scheduled deliveries pursuant to any Cumulative Incremental Load-Out Requirement arising per this Notice, then the queue length may take into account such incremental scheduled deliveries.

#### 11 Calculating the Cumulative Incremental Load-Out Requirement

Each Warehouse shall maintain the calculation of its Cumulative Incremental Load-Out Requirement. At the start of each Calculation Period, the Cumulative Incremental Load-Out Requirement shall be set to zero.

- a) During the Preliminary Calculation Period, on each Business Day, the following value will be added to the Cumulative Incremental Load-Out Requirement:

*the amount of new metal placed on-warrant in the Warehouse on the Business Day in question*

**less**

*the **higher of** (i) the Normal Daily Minimum Load-Out Rate, and (ii) the actual amount of metal loaded-out of the Warehouse on the Business Day in question – provided that, for the purposes of (ii), load-out in excess of the Normal Daily Minimum Load-Out Rate which is made to compensate for a shortfall in load-out on a previous or subsequent Business Day (due, inter alia, to scheduling variations within a single load-out request per paragraph C.2 of the LME Policy Regarding the Approval of Warehouses) shall not count towards the actual amount of metal loaded-out of the Warehouse*

On the final Business Day of the Preliminary Calculation Period, a Warehouse shall establish whether it is an Affected Warehouse at the end of that Business Day. If (i) the Warehouse is not an Affected Warehouse, or (ii) the calculated Cumulative Incremental Load-Out Requirement is less than or equal to zero, then the Cumulative Incremental Load-Out Requirement for the Preliminary Calculation Period shall be set to zero, and no additional load-out requirements will hence be incurred during the Preliminary Discharge Period. If (i) the Warehouse is an Affected Warehouse, and (ii) the calculated Cumulative Incremental Load-Out Requirement is greater than zero, then the Cumulative Incremental Load-Out Requirement for the Preliminary Calculation Period must be satisfied by the Warehouse during the Preliminary Discharge Period as set out in paragraph 12 below.

- b) During the First Calculation Period, and each subsequent Calculation Period, for each Business Day that a Warehouse is an Affected Warehouse, the Cumulative Incremental Load-Out Requirement shall be increased by:



*0.5 multiplied by the amount of new metal placed on-warrant in the Warehouse on the Business Day in question, up to and including the Normal Daily Minimum Load-Out Rate*

**plus**

*the amount of new metal placed on-warrant in the Warehouse on the Business Day in question, above the Normal Daily Minimum Load-Out Rate*

## 12 Discharging the Incremental Load-Out Requirement

At the end of each Calculation Period, the then current Cumulative Incremental Load-Out Requirement must be satisfied by the Warehouse during the Discharge Period associated with the Calculation Period having just concluded.

During the associated Discharge Period, the Warehouse will be required to load-out the Cumulative Incremental Load-Out Requirement, in addition to its load-out obligations according to the LME requirements in force prior to the adoption of this Notice. For the avoidance of doubt, the Warehouse will not be held to any particular daily incremental load-out rate – however, in aggregate over the course of the Discharge Period, the full Cumulative Incremental Load-Out Requirement must be satisfied.

## 13 A worked example of the calculation

A worked example of the calculation is provided as Appendix A to this Notice.

## **Considerations**

14 The intended effects of the rules introduced in this Notice are:

- a) To reduce the length of queues at current Affected Warehouses. By linking load-out to load-in, the rules will ultimately act to reduce the total stock held in an Affected Warehouse – and, notwithstanding Affected Warehouses ceasing to warrant new metal, the rules will also act to increase an Affected Warehouse's load-out rate. Although the precise development of the queue will be impacted by the rate of warrant cancellation, over the long-run, the net mathematical effect will be to shorten queues at Affected Warehouses. However, by allowing warehouse operators to compensate for higher load-in by increasing load-out, this is achieved without imposing any specific restrictions on the ability of a Warehouse to continue warranting new metal, provided that load-out rates can be increased accordingly.
- b) To limit the potential for long queues to develop at non-Affected Warehouses, by imposing additional load-out requirements at such point as a non-Affected Warehouse develops a 100 day queue and hence becomes an Affected Warehouse. Again, it is theoretically possible for long queues to develop in a short space of time (driven by large-scale cancellations). However, in the ordinary course, it is expected that the rules will curb the development of long queues at



#### non-Affected Warehouses.

15 Previous initiatives that have been introduced, referenced in paragraph 3 of this Notice, were chosen by design to have minimal influence on the LME price discovery process. With the current proposal outlined above, the potential impact on the LME on-exchange market is greater – and, as such, requires careful consideration and risk analysis. On-exchange short position holders may be delayed or, in extreme circumstances, denied the ability to warrant LME metal at certain locations if the warehouse company feels the warranting will cause an unsustainable increase in the subsequent quarter's delivery out requirements for that warehouse company in that location. As a default is not an option on the LME, backwardated markets may be artificially exacerbated or created as shorts seek to delay delivery on-exchange. Therefore, potentially, this policy could itself unintentionally create an artificial supply and demand dynamic in LME markets. As part of this consultation, the LME would be interested in the market's view of whether this is an acceptable or manageable risk for market participants.

16 The new proposal would have to operate alongside the current delivery out rate obligations referenced in paragraph 3 of this Notice. This adds another level of complexity and potential uncertainty to the scheduling process. Under the new proposal, the minimum base delivery out rate for a Warehouse would be augmented by the Incremental Load-Out Requirement over the Discharge Period. This would vary by Discharge Period, altering the schedule for delivery out accordingly. Although the one month period between the Calculation Period and its associated Discharge Period is designed to facilitate recalibration of shipping schedules, the new requirements may inhibit warehouse operators from providing accurate long-term scheduling commitments.

17 Paradoxically, if the industry believes the new proposal to be effective in allowing a greater speed of access to LME metal, the market could see an increase in cancellations to obtain a scheduled delivery date position. This could result in queue lengths being exacerbated in the short- to medium-term as a result of the policy change – although, in the longer term, the impact of the new requirements would be to reduce queues to or below the 100 day Affected Warehouse threshold.

18 Another consideration for the new policy outlined above is in relation to cost. There are several cost implications of the new proposal – in particular:

- a) The current fixed rent cycle commenced on 1 April 2013 for the year up to 31 March 2014, with such fixing being based on warehouse costs and business modelling for the year ahead. Although no new delivery out obligations would be incurred until 1 May 2014, the Preliminary Calculation Period would commence on the date of this Notice and end on 31 March 2014, limiting the ability of warehouse operators to factor any resulting Incremental Load-Out Requirement into rents.
- b) Future rent increases for the 2014 rent cycle are a reality if such a policy change is implemented, thus increasing the disconnect between LME storage and other forms of storage costs. This could act as a disincentive to using LME storage facilities and perhaps impact pricing on the LME futures market.



## Next steps and timeline

19 The LME is keen to receive the views of as many market participants as possible in relation to the proposed requirements in this Notice. Accordingly, the LME is initiating a three month consultation period, starting as of the date of this Notice (1 July 2013), and running to 30 September 2013. During this time, the LME will accept written submissions, and LME executives will make themselves available for meetings with all interested users. All feedback will be treated in confidence.

Written submissions and meeting requests should be addressed to Matt Chamberlain, Head of Strategy and Implementation at the LME (matthew.chamberlain@lme.com / +44 20 7264 1730).

20 Following the conclusion of the consultation period, all feedback will be made available to the LME Board. The Board is expected to reach a final decision during its scheduled meeting in October 2013, following which a further Notice will be issued. The Notice may (i) enact the requirements as set out in this Notice, (ii) enact modified versions of such requirements or different requirements, or (iii) not enact any new requirements.

21 In order to disincentivise opportunistic large-scale load-in before the potential application of the proposed new requirements, the Preliminary Calculation Period starts on the date of this Notice. However, this should not be viewed by the market as implying that any decision has been taken in relation to the adoption of the new requirements. To the extent that the requirements are not adopted, the Preliminary Calculation Period will terminate, with no associated Discharge Period.

22 A proposed revised Policy regarding the Approval of Warehouses incorporating the new requirements is attached to this Notice as Appendix B. Such policy would only come into effect in the event that the Board approved the proposal.

A handwritten signature in black ink, appearing to read 'M. Castro'.

**Marcos Castro**  
**Company Secretary**

cc: Board directors  
User Committee  
Warehousing Committee  
All metals committees

## Appendices

- A. Worked example of the calculation
- B. Proposed revised LME Policy Regarding the Approval of Warehouses



## **APPENDIX A – WORKED EXAMPLE OF THE CALCULATION**

*This worked example is provided for illustrative purposes only and should not be relied upon for any reason.*

- a) Consider a notional Warehouse with stocks of 2,000,000 tonnes of a single metal. Pursuant to the LME Policy Regarding the Approval of Warehouses, revised 1 April 2013, the Normal Daily Minimum Load-Out Rate is 3,000 tonnes per Business Day. Consider further that the Warehouse chooses to load-out precisely its Normal Daily Minimum Load-Out Rate (3,000 tonnes) on each Business Day.
- b) Consider that, of the Warehouse's stocks, 1,000,000 tonnes are represented by cancelled metal. Assuming that owners of all of the cancelled metal have completed the necessary formalities, then the Warehouse's load-out queue will hold 1,000,000 tonnes of metal. At a load-out rate of 3,000 tonnes per Business Day, the queue length will be:

$$\begin{aligned} & 1,000,000 \text{ tonnes} / 3,000 \text{ tonnes per Business Day} \\ & = 333.3 \text{ Business Days} \\ & = 465.3 \text{ calendar days (assuming all weekdays are Business Days)} \end{aligned}$$

For the avoidance of doubt, in practice, the queue length will be determined by the Warehouse concerned on the basis of schedules provided to metal owners.

- c) Consider that the Warehouse places on-warrant a constant amount of 3,100 tonnes per Business Day. Consider also that, on each Business Day, warrant holders cancel an amount of 3,000 tonnes of metal (thus balancing the delivery out of 3,000 tonnes per Business Day, resulting in a constant queue length until such time as the Cumulative Incremental Load-Out Requirement comes into effect).
- d) At the start of the Preliminary Calculation Period (1 July 2013), the Cumulative Incremental Load-Out Requirement is zero.

On each day during the Preliminary Calculation Period, the following value will be added to the Cumulative Incremental Load-Out Requirement:

*the amount of new metal placed on-warrant in the Warehouse on the Business Day in question (3,100 tonnes)*

**less**

*the **higher of** (i) the Normal Daily Minimum Load-Out Rate (3,000 tonnes), and (ii) the actual amount of metal loaded-out of the Warehouse on the Business Day in question (also 3,000 tonnes)*

$$= 3,100 \text{ tonnes} - 3,000 \text{ tonnes} = 100 \text{ tonnes}$$

- e) At the end of the Preliminary Calculation Period (31 March 2014), and assuming





that each weekday during the Preliminary Calculation Period is a Business Day for the Warehouse (resulting in a total of 196 Business Days during the Preliminary Calculation Period), then the Cumulative Incremental Load-Out Requirement will total 19,600 tonnes.

Given that, per (c) above, the queue will have retained a constant length, the queue length at the end of the Preliminary Calculation Period will remain at 465.3 calendar days. On this basis, the queue length is greater than 100 days, and the Warehouse is hence an Affected Warehouse at the end of the Preliminary Calculation Period.

Given that, on the final Business Day of the Preliminary Calculation Period, (i) the Warehouse is an Affected Warehouse, and (ii) the calculated Cumulative Incremental Load-Out Requirement is greater than zero, then the Cumulative Incremental Load-Out Requirement must be satisfied by the Warehouse during the Preliminary Discharge Period.

- f) During the Preliminary Discharge Period (1 May 2014 to 31 July 2014), the Warehouse will be required to load-out the Cumulative Incremental Load-Out Requirement relating to the Preliminary Calculation Period (19,600 tonnes in total over the course of the Preliminary Discharge Period), in addition to its Normal Daily Minimum Load-Out Rate of 3,000 tonnes per Business Day.
- g) At the start of the First Calculation Period (1 April 2014), the Cumulative Incremental Load-Out Requirement is set to zero.

On each day during the First Calculation Period, the following value will be added to the Cumulative Incremental Load-Out Requirement (on the assumption that the Warehouse's queue is such that it remains an Affected Warehouse):

*0.5 multiplied by the amount of new metal placed on-warrant in the Warehouse on the Business Day in question, up to and including the Normal Daily Minimum Load-Out Rate (3,000 tonnes)*

**plus**

*the amount of new metal placed on-warrant in the Warehouse on the Business Day in question, above the Normal Daily Minimum Load-Out Rate (100 tonnes, i.e. 3,100 tonnes placed on-warrant, less the Normal Daily Minimum Load-Out Rate of 3,000 tonnes)*

$$\begin{aligned} &= (0.5 \times 3,000 \text{ tonnes}) + 100 \text{ tonnes} = 1,500 \text{ tonnes} + 100 \text{ tonnes} \\ &= 1,600 \text{ tonnes} \end{aligned}$$

- h) At the end of the First Calculation Period (30 June 2014), and assuming that each weekday during the First Calculation Period is a Business Day for the Warehouse (resulting in a total of 65 Business Days during the First Calculation Period), then the Cumulative Incremental Load-Out Requirement will total 104,000 tonnes.



- i) During the First Discharge Period (1 August 2014 to 31 October 2014), the Warehouse will be required to load-out the Cumulative Incremental Load-Out Requirement relating to the First Calculation Period (104,000 tonnes in total over the course of the First Discharge Period), in addition to its Normal Daily Minimum Load-Out Rate of 3,000 tonnes per Business Day.
  
- j) This process continues through the Second Calculation Period (and associated Second Discharge Period), Third Calculation Period (and associated Third Discharge Period) and so on, until such time as the Warehouse ceases to be an Affected Warehouse.



## **APPENDIX B – PROPOSED REVISED LME POLICY REGARDING THE APPROVAL OF WAREHOUSES**

### **LME POLICY REGARDING THE APPROVAL OF WAREHOUSES, REVISED [Date of final Board approval of proposal in Notice 13/208: A201: W076, if forthcoming]**

#### **A) Warehouse companies**

Warehouse companies will be considered for listing in an existing or new location subject to completion of a warehouse agreement application form supported by evidence of insurance, capital adequacy and other documents as detailed by the LME from time to time. Inspection of premises offered for warehousing to the LME will take place prior to any listing to ensure they suit the logistical nature of the location as required by the LME. The LME will state its needs in this respect when sending the applicant the application form.

#### **B) Warehouses**

1. Road connection to major highways is mandatory.
2. Rail loading facilities adjacent to the warehouses will be required if, in the opinion of the LME, this service is routinely required by the metals trade. Warehouses without direct rail connections in such locations may be considered for listing if it can be demonstrated that adequate shuttle services to the rail head are provided by the warehouse company at its own cost and risk.
3. Water loading facilities adjacent to the warehouse or otherwise will be treated in the same way as rail.

The LME will undertake its own enquiries, as it sees fit, from its members/trade entities etc. to evaluate any applications prior to submission to EXCOM for consideration.

#### **C) Common standards of working practices and facilities for warehouses**

1. For each 2500m<sup>2</sup> of space (not including open storage compounds for steel) there must be access by means of an operational door for vehicle loading/unloading, with a minimum of 2 doors per warehouse.
2. The minimum daily delivery tonnage must be in accordance with the tables below. Where the delivery requests exceed the minimum daily delivery tonnage for the capacity on the table below, the LME will regard the standard as applying over the number of days necessary to complete the deliveries, as per the table (e.g. if the requests for the delivery of 2000 tonnes apply to a warehouse's location capacity of 2500 sq. metres, the standard would be to deliver in 3 days with no reference to the performance on any one of those days). The LME



would, however, expect the warehouse company to act reasonably when allocating the tonnage delivered out in each of those days.

warehouse company's authorised space per location, in m <sup>2</sup>	minimum daily delivery tonnage for all metals (excluding cobalt and RMC)
2,500	800 tonnes
5,000	1,200 tonnes
7,500	1,500 tonnes

The above table applies to all companies who are storing up to 300,000 metric tonnes of metal. For companies who are storing 300,000 metric tonnes and above the following table is applicable

warehouse company's tonnage stored per location	minimum daily delivery tonnage for all metals (excluding cobalt and RMC)
300,000 tonnes to 599,999 tonnes	2,000 tonnes
600,000 tonnes to 899,999 tonnes	2,500 tonnes
900,000 tonnes and over	3,000 tonnes

NB: The daily delivery tonnage is for deliveries out only and does not include deliveries in.

3. Where a warehouse company's tonnage stored increases beyond any of the 300,000, 600,000 or 900,000 tonnes thresholds, the applicable revised minimum daily delivery tonnage shall have effect from the date which is 30 days from the date the threshold is passed. This will allow the warehouse company to implement the necessary scheduling changes in order to meet the increased minimum daily delivery tonnage. However, where a warehouse company's tonnage stored falls beneath any of the 300,000, 600,000 or 900,000 tonnes thresholds, a warehouse company will still be required to deliver out all outstanding deliveries scheduled on or prior to the date the tonnage falls beneath such threshold.
4. In addition to the daily rates stipulated in the tables above, a warehouse company in any location who satisfies the following conditions:-
  - (a) the warehouse company has scheduled delivery out commitments of 30,000 metric tonnes or more; and
  - (b) a minimum of 30,000 metric tonnes of those scheduled commitments are for one metal (the "dominant metal");shall be required to deliver out a minimum of 500 metric tonnes per day in that location of metals other than the dominant metal, provided that such deliveries are requested.



5. In addition to the daily rates stipulated in the tables and paragraph 4 above, warehouse companies delivering out the minimum rates stipulated above will be required to deliver out an additional, combined tonnage of tin or nickel, or a combination of both metals, in order to ensure that at least 60 tonnes of these metals is being delivered out each day. For the avoidance of doubt, the extra 60 tonnes would only be required to be delivered out if the warehouse company had reached its minimum daily load out rate (whether or not the requirement in paragraph 4 above has been triggered) and not delivered out 60 tonnes per day of tin and/or nickel as part of these deliveries.
6. The daily delivery out rate does not include deliveries out for cobalt and roasted molybdenum concentrate (RMC). Any deliveries out for either of these metals must be in addition to the rates stipulated in the above table.
7. In addition to the daily rates stipulated above, an “Affected Warehouse” shall be required to comply with the Linked Load-In and Load-Out Requirements set out in Section F below.
8. The LME recognises that it may not be possible to achieve exactly the same delivery rates if delivery into containers, vans or railcars is required. In assessing a warehouse company’s performance, the circumstances will be taken into account.
9. Once all formalities permitting delivery have been completed the warehouse shall prioritise all requests for deliveries out on the basis of 48 hours notice and strictly in the order in which they are received, unless the Warrant holders seeking cancellation agree otherwise.
10. In addition to their rent and FOT charges, warehouse companies are also required to supply the LME with a comprehensive set of charges for delivery out of warranted metal and will undertake to immediately advise the LME of any changes thereto. Warehouse companies are also required to submit to the LME compulsory port tariffs for the import and export of metal.
11. There should be no charges above the FOT for returning the metal to the warehouse companies approved and nominated loading berths within the location where the LME discerns a need for such transportation; the unloading of such metal from the truck being for the receiver’s account.
12. Similarly there should be no charges above the FOT for returning metal to the nearest railhead where the LME discerns a need for such transportation.
13. Warehouse Companies are reminded that the daily delivery tonnages set out in this policy are minimum delivery out requirements, not minimum scheduling requirements.

With the exception of the FOT charge and port tariffs for the export of metal the warehouse company may not impose any compulsory additional charges when delivering metal out.



#### **D) Continued compliance with the LME policy for warehouses**

1. In the event that an existing approved warehouse/warehouse company does not appear to meet the LME's criteria, there will be an initial consultation with the warehouse company concerned.
2. If the warehouse company can demonstrate that it will upgrade facilities or work practices to meet the LME's new standards, the LME will consider the appropriate amount of time to allow for such a process. Warehouses could, for example, be given, say, 6-12 months to upgrade their facilities or relocate to a more suitable building within the location, but this would be determined on a case by case basis, according to the circumstances.
3. If after consultation the warehouse company is unwilling or unable to upgrade its facilities or work practices to meet the LME's standards, the LME retains the right to restrict the capacity of that warehouse company in that location or even delist it.
4. Prior to implementation, the LME would give the necessary notice of any action to be taken to the warehouse company and allow for formal representations to be made.

#### **E) Review of LME policy for warehouses**

This policy will be reviewed at least on a biennial basis

#### **F) Linked Load-In and Load-Out Requirements**

##### **1 Principle**

The general principle of this requirement is to link load-in and load-out for Warehouses with queues of greater than 100 calendar days.

##### **2 Definitions**

A Warehouse is all of the LME-licensed storage facilities operated by a particular warehousing company in a particular LME good delivery location.

In relation to a particular Warehouse, a Business Day is any day on which that particular Warehouse is operating and subject to the current LME minimum load-out requirement.

The Preliminary Calculation Period shall be the period between the date of this Notice (1 July 2013) and 31 March 2014, inclusive.

The First Calculation Period shall be the period between 1 April 2014 and 30 June 2014, inclusive.



Each subsequent Calculation Period shall be the three months immediately following the preceding Calculation Period. By way of example, the Second Calculation Period shall be the period between 1 July 2014 and 30 September 2014, inclusive (being the three months immediately following the First Calculation Period).

The Preliminary Discharge Period, which will apply in relation to the Preliminary Calculation Period, will be the three month period between 1 May 2014 and 31 July 2014, inclusive.

For each subsequent Calculation Period, the related Discharge Period (i.e. the period during which the Cumulative Incremental Load-Out Requirement calculated in accordance with paragraph 4 below must be met) shall be the three month period starting on the date one calendar month following the end of that Calculation Period. By way of example, the First Discharge Period shall be the period between 1 August 2014 and 31 October 2014, inclusive (being the three month period starting on the date one calendar month following the end of the First Calculation Period).

In relation to a particular Warehouse on any given Business Day, the Normal Daily Minimum Load-Out Rate is the amount of metal required to be loaded out according to the LME requirements in force prior to the adoption of this Notice. For the avoidance of doubt:

- a) The basis for determining the Normal Daily Minimum Load-Out Rate shall be Section C of this Policy set out above.
- b) If, on the Business Day in question, a warehouse is required to make an additional load-out of non-dominant metal (pursuant to paragraph 4 of Section C above), such additional load-out will be counted towards the Normal Daily Minimum Load-Out Rate for the Business Day in question.
- c) If, on the Business Day in question, a warehouse is required to make an additional load-out of nickel and tin (pursuant to paragraph 5 of Section C above), such additional load-out will be counted towards the Normal Daily Minimum Load-Out Rate for the Business Day in question.
- d) Load-out of cobalt and roasted molybdenum concentrate (RMC) (paragraph 6 of Section C above) will not be counted towards the Normal Daily Minimum Load-Out Rate, given that these metals are treated separately for the purposes of warehouse load-out rates.

### 3 Affected Warehouses

On any given Business Day, an Affected Warehouse is a Warehouse with a queue of greater than 100 calendar days. Queue lengths will continue to be measured and reported to the LME by warehouse operators, with the LME continuing to exercise oversight in respect of such measurements. For the avoidance of doubt, to the extent that a Warehouse has scheduled deliveries pursuant to any Cumulative



Incremental Load-Out Requirement arising per this Notice, then the queue length may take into account such incremental scheduled deliveries.

#### 4 Calculating the Cumulative Incremental Load-Out Requirement

Each Warehouse shall maintain the calculation of its Cumulative Incremental Load-Out Requirement. At the start of each Calculation Period, the Cumulative Incremental Load-Out Requirement shall be set to zero.

- a) During the Preliminary Calculation Period, on each Business Day, the following value will be added to the Cumulative Incremental Load-Out Requirement:

*the amount of new metal placed on-warrant in the Warehouse on the Business Day in question*

**less**

*the **higher of** (i) the Normal Daily Minimum Load-Out Rate, and (ii) the actual amount of metal loaded-out of the Warehouse on the Business Day in question – provided that, for the purposes of (ii), load-out in excess of the Normal Daily Minimum Load-Out Rate which is made to compensate for a shortfall in load-out on a previous or subsequent Business Day (due, inter alia, to scheduling variations within a single load-out request per paragraph 2 of Section C above) shall not count towards the actual amount of metal loaded-out of the Warehouse*

On the final Business Day of the Preliminary Calculation Period, a Warehouse shall establish whether it is an Affected Warehouse at the end of that Business Day. If (i) the Warehouse is not an Affected Warehouse, or (ii) the calculated Cumulative Incremental Load-Out Requirement is less than or equal to zero, then the Cumulative Incremental Load-Out Requirement for the Preliminary Calculation Period shall be set to zero, and no additional load-out requirements will hence be incurred during the Preliminary Discharge Period. If (i) the Warehouse is an Affected Warehouse, and (ii) the calculated Cumulative Incremental Load-Out Requirement is greater than zero, then the Cumulative Incremental Load-Out Requirement for the Preliminary Calculation Period must be satisfied by the Warehouse during the Preliminary Discharge Period as set out in paragraph 5 below.

- b) During the First Calculation Period, and each subsequent Calculation Period, for each Business Day that a Warehouse is an Affected Warehouse, the Cumulative Incremental Load-Out Requirement shall be increased by:

*0.5 **multiplied by** the amount of new metal placed on-warrant in the Warehouse on the Business Day in question, up to and including the Normal Daily Minimum Load-Out Rate*

**plus**





*the amount of new metal placed on-warrant in the Warehouse on the Business Day in question, above the Normal Daily Minimum Load-Out Rate*

## 5 Discharging the Incremental Load-Out Requirement

At the end of each Calculation Period, the then current Cumulative Incremental Load-Out Requirement must be satisfied by the Warehouse during the Discharge Period associated with the Calculation Period having just concluded.

During the associated Discharge Period, the Warehouse will be required to load-out the Cumulative Incremental Load-Out Requirement, in addition to its load-out obligations according to the LME requirements in force prior to the adoption of this Notice. For the avoidance of doubt, the Warehouse will not be held to any particular daily incremental load-out rate – however, in aggregate over the course of the Discharge Period, the full Cumulative Incremental Load-Out Requirement must be satisfied.

## 6 A worked example of the calculation

*This worked example is provided for illustrative purposes only and should not be relied upon for any reason.*

- a) Consider a notional Warehouse with stocks of 2,000,000 tonnes of a single metal. Pursuant to the LME Policy Regarding the Approval of Warehouses, revised 1 April 2013, the Normal Daily Minimum Load-Out Rate is 3,000 tonnes per Business Day. Consider further that the Warehouse chooses to load-out precisely its Normal Daily Minimum Load-Out Rate (3,000 tonnes) on each Business Day.
- b) Consider that, of the Warehouse's stocks, 1,000,000 tonnes are represented by cancelled metal. Assuming that owners of all of the cancelled metal have completed the necessary formalities, then the Warehouse's load-out queue will hold 1,000,000 tonnes of metal. At a load-out rate of 3,000 tonnes per Business Day, the queue length will be:

$$\begin{aligned} & 1,000,000 \text{ tonnes} / 3,000 \text{ tonnes per Business Day} \\ & = 333.3 \text{ Business Days} \\ & = 465.3 \text{ calendar days (assuming all weekdays are Business Days)} \end{aligned}$$

For the avoidance of doubt, in practice, the queue length will be determined by the Warehouse concerned on the basis of schedules provided to metal owners.

- c) Consider that the Warehouse places on-warrant a constant amount of 3,100 tonnes per Business Day. Consider also that, on each Business Day, warrant holders cancel an amount of 3,000 tonnes of metal (thus balancing the delivery out of 3,000 tonnes per Business Day, resulting in a constant queue length until such time as the Cumulative Incremental Load-Out Requirement comes into effect).



- d) At the start of the Preliminary Calculation Period (1 July 2013), the Cumulative Incremental Load-Out Requirement is zero.

On each day during the Preliminary Calculation Period, the following value will be added to the Cumulative Incremental Load-Out Requirement:

*the amount of new metal placed on-warrant in the Warehouse on the Business Day in question (3,100 tonnes)*

**less**

*the **higher of** (i) the Normal Daily Minimum Load-Out Rate (3,000 tonnes), and (ii) the actual amount of metal loaded-out of the Warehouse on the Business Day in question (also 3,000 tonnes)*

*= 3,100 tonnes – 3,000 tonnes = 100 tonnes*

- e) At the end of the Preliminary Calculation Period (31 March 2014), and assuming that each weekday during the Preliminary Calculation Period is a Business Day for the Warehouse (resulting in a total of 196 Business Days during the Preliminary Calculation Period), then the Cumulative Incremental Load-Out Requirement will total 19,600 tonnes.

Given that, per (c) above, the queue will have retained a constant length, the queue length at the end of the Preliminary Calculation Period will remain at 465.3 calendar days. On this basis, the queue length is greater than 100 days, and the Warehouse is hence an Affected Warehouse at the end of the Preliminary Calculation Period.

Given that, on the final Business Day of the Preliminary Calculation Period, (i) the Warehouse is an Affected Warehouse, and (ii) the calculated Cumulative Incremental Load-Out Requirement is greater than zero, then the Cumulative Incremental Load-Out Requirement must be satisfied by the Warehouse during the Preliminary Discharge Period.

- f) During the Preliminary Discharge Period (1 May 2014 to 31 July 2014), the Warehouse will be required to load-out the Cumulative Incremental Load-Out Requirement relating to the Preliminary Calculation Period (19,600 tonnes in total over the course of the Preliminary Discharge Period), in addition to its Normal Daily Minimum Load-Out Rate of 3,000 tonnes per Business Day.
- g) At the start of the First Calculation Period (1 April 2014), the Cumulative Incremental Load-Out Requirement is set to zero.

On each day during the First Calculation Period, the following value will be added to the Cumulative Incremental Load-Out Requirement (on the assumption that the Warehouse's queue is such that it remains an Affected Warehouse):



*0.5 multiplied by the amount of new metal placed on-warrant in the Warehouse on the Business Day in question, up to and including the Normal Daily Minimum Load-Out Rate (3,000 tonnes)*

**plus**

*the amount of new metal placed on-warrant in the Warehouse on the Business Day in question, above the Normal Daily Minimum Load-Out Rate (100 tonnes, i.e. 3,100 tonnes placed on-warrant, less the Normal Daily Minimum Load-Out Rate of 3,000 tonnes)*

$$\begin{aligned} &= (0.5 \times 3,000 \text{ tonnes}) + 100 \text{ tonnes} = 1,500 \text{ tonnes} + 100 \text{ tonnes} \\ &= 1,600 \text{ tonnes} \end{aligned}$$

- h) At the end of the First Calculation Period (30 June 2014), and assuming that each weekday during the First Calculation Period is a Business Day for the Warehouse (resulting in a total of 65 Business Days during the First Calculation Period), then the Cumulative Incremental Load-Out Requirement will total 104,000 tonnes.
- i) During the First Discharge Period (1 August 2014 to 31 October 2014), the Warehouse will be required to load-out the Cumulative Incremental Load-Out Requirement relating to the First Calculation Period (104,000 tonnes in total over the course of the First Discharge Period), in addition to its Normal Daily Minimum Load-Out Rate of 3,000 tonnes per Business Day.
- j) This process continues through the Second Calculation Period (and associated Second Discharge Period), Third Calculation Period (and associated Third Discharge Period) and so on, until such time as the Warehouse ceases to be an Affected Warehouse.