(Registered Number: 07611628)

LME Clear Limited

Annual report and financial statements

31 December 2023

LME Clear Limited

Directors and independent auditors

Directors

The Directors of LME Clear Limited (the Company or LME Clear) who were in office during the year and up to the date of signing the financial statements were:

Current directors

D Warren (Chairman)[1]	Appointed 21 July 2023
N C Allen	Appointed 12 April 2023
J Carruthers[1]	
M Carty (CEO)	Appointed 2 October 2023
B Y Chan	Appointed 27 September 2023
C P Chapman[1]	Appointed 21 February 2024
H E Graham	Appointed 21 June 2023
R Gil-Tienda	Appointed 18 May 2023
R A Wise	Appointed 18 May 2023
C Young[1]	

Resigned directors

M J Chamberlain	Resigned 18 May 2023
R C K Leung	Resigned 27 September 2023
A J Stuart	Resigned 28 April 2023
M A Strimer	Resigned 31 December 2023
S K W Yiu	Resigned 28 April 2023

Registered office

10 Finsbury Square, London EC2A 1AJ

Independent auditors

PricewaterhouseCoopers LLP
7 More London Riverside, London SE1 2RT

[1] Denotes Independent Non-Executive Director

LME Clear Limited

Strategic report

The Directors present their Strategic report on the Company for the year ended 31 December 2023. This report should be read in conjunction with the Directors' report on pages 9 to 14.

Overview

The Company is incorporated in England and Wales and is an indirect subsidiary of Hong Kong Exchanges and Clearing Limited (HKEX), a leading global financial market operator.

Principal activities

The Company is a Recognised Clearing House under the Financial Services and Markets Act 2000 and authorised in accordance with the on-shored UK version of the European Market Infrastructure Regulation (EMIR). The Company acts as the central counterparty (CCP) for exchange contracts traded on The London Metal Exchange (the LME). The clearing service principally provides counterparty risk mitigation services for the Company's Clearing Members.

Review of the business

The Directors are satisfied with the performance of the Company, with strong performance in investment income driven by the more favourable interest rate environment, together with clearing volumes up 11% year-on-year. LME's 2023 average daily volume (ADV) was 562k lots (chargeable volume excluding administrative trades), compared to 502k lots in 2022. Higher volumes can be attributed to healthy open interest, up 25% year-on-year, especially in the last quarter as traders rolled open positions into 2024. This was supported by record lead volumes as part of strong lead growth in response to this metal's inclusion in the Bloomberg Commodity Index, and a record year in steel scrap, where volumes on the Turkish steel scrap rose by 95%.

Nickel showed encouraging signs with steady volume growth; nickel ADV rose above 50,000 for the first time since March 2022. The LME also saw an increase in options trading which contributed to higher futures volumes as traders hedged the options position-related exposure. This activity was broadly in line with the macroeconomic environment for metal markets, as predicted market downturns were slower to materialise than anticipated.

In terms of the LME's traded contracts, for which LME Clear provides clearing services, the LME added zinc jumbos as a deliverable shape for its zinc contract, making the contract more representative of the physical market and increasing the number of brands eligible for bank financing which should ultimately lead to greater liquidity.

Following the UK's exit from the European Union (EU) significant regulatory changes that affect the Company (aside from the onshoring of EMIR into UK law) have yet to be announced. ESMA have extended CCP equivalence for UK CCPs for a further three years until 2025.

The key risk management activities of the Company as a CCP including market, credit and liquidity risk and associated policies and procedures have all operated in line with the Company's Risk Appetite Statement.

On 31 March 2023, the Company, alongside LME, published a multi-year programme of change to strengthen and enhance its markets (the Action Plan. This Action Plan addressed recommendations put forward by Oliver Wyman following events in the nickel market in 2022 and builds on the immediate steps taken by the LME Group during 2022 to enhance market resilience, including by making daily price limits a permanent feature of its market.

The Action Plan comprises work across multiple workstreams, including (i) protections against market distortion (including delivering real time monitoring enhancements and daily price limits), (ii) clearing and risk management enhancements, (iii) governance enhancements, (iv) modernisation (including a market-wide consultation on the evolution of Closing Prices), and (vi) enhancements to the physical market (including a fast track listing process for nickel brands, and better transparency of off-warrant stock reporting). The Company has made significant progress in implementing recommended measures. Volumes on the LME nickel market, outlined above, have recovered strongly in response to the measures being implemented and confidence returning to this market.

Strategic report (continued)

Review of the business (continued)

In December 2023, the UK Government expanded its sanctions against Russia to introduce a prohibition on the import, acquisition, and supply and delivery (directly or indirectly), of certain metals – including aluminium, copper and nickel – to take effect on 15 December 2023. At the same time as the sanctions expansion, HM Treasury also published a trade licence which explicitly authorised warrant acquisition via the LME and LME Clear, albeit with some limitations remaining – including the ability of UK persons to cancel metal for their own account. The LME implemented these sanctions immediately and continues to engage closely with the Company and the market on the impact.

Performance measurement and key performance indicators (KPIs)

Management employs commercial KPIs including clearing volume, margin portfolio size and critical system availability.

In respect of capital, the key performance indicator is compliance with regulatory capital requirements set in accordance with the on-shored UK version of EMIR. The Company held sufficient capital to meet its requirements throughout the year. Further detail on capital requirements is presented in the Directors' report.

Financial KPIs	**2023**	**2022**	**Increase / (decrease)**
	$ 000's	**$ 000's**	**$ 000's**
Revenue and other income	106,685	93,656	13,029
Operating expenses	68,781	67,507	1,274
Earnings before interest, tax, depreciation and amortisation	43,421	33,158	10,263
Profit before tax	37,684	26,566	11,118
Profit after tax	28,662	21,422	7,240
Net assets	290,448	260,582	29,866
Margin deposits from clearing participants	8,696,247	13,489,530	(4,793,283)
Related non-financial KPIs			
ADV (000's; chargeable, excluding administrative trades)	562	506	56

Higher revenue is predominantly due to an increase in investment income driven by the higher interest rate environment, and higher clearing and settlement fees due to the increase in ADV. The increase in operating expenses is due to higher staff costs and higher legal and professional fee expense in the year. As a result profits have increased compared to 2022.

No final dividend is proposed in respect of 2023 (2022: $nil). The Company did not pay an interim dividend during the year (2022: $nil).

Strategy

The Company's strategy continues to focus on clearing the existing contracts traded on the LME and providing a resilient and efficient service. In addition, the Company will seek to clear any new products developed by the LME and to diversify its clearing services to existing and prospective Clearing Members.

The Company is assessing its longer-term strategy and is considering opportunities to redevelop its clearing services in concert with commencing preparations for replacing its clearing platform later this decade. This strategic review will aim to pinpoint and develop opportunities in the clearing services the Company provides while supporting the growth and structural reform of the LME. This will also include assessing opportunities in the global clearing space aligned to LME and HKEX priorities.

Strategic report (continued)

Business environment

The Company operates in a highly regulated, competitive and technology-intensive environment. The Company will continue to offer robust and resilient clearing services and improve its offering to its Clearing Members.

Broadly speaking, 2023 was a challenging year for the physical market. Manufacturing demand continues to be weak, characterised by the S&P Global World Manufacturing Purchasing Managers' Index remaining below 50 for the year. A combination of high inflation, rising interest rates, sanctions and a slower than expected recovery from China have contributed to the lack of industrial growth. Europe has particularly underperformed in 2023. Lacklustre metal demand saw supply surpluses build across the metals, and LME stocks rising by approximately 500,000 metric tonnes.

Other areas of focus have been progressing the programme of change associated with the Action Plan, managing the ongoing impact of the Ukraine-Russia conflict on the Company, including taking appropriate action in response to tariffs and sanctions.

Principal risks and uncertainties

As a CCP the Company is the counterparty to every matched trade. It acts as a buyer to every seller and the seller to every buyer and as a result it recognises derivative instruments in respect of both sides of the trade. During the life of a trade the Company processes all cash flows, marks the trade to market and calls collateral in the form of variation and initial margin in relation to the risk of the portfolio, this process is called clearing. If either party defaults on the trade the Company owns the defaulter's risk and becomes accountable for its liabilities. In the event of default the collateral held by the Company is used to fulfil the failed organisation's obligations, which ensures that the party on the other side of the trade is not negatively impacted by the default.

The Company's activities as a CCP expose it to a number of risks, including market risk, credit risk and liquidity risk. The Company manages these risks through various control mechanisms which are discussed in detail in note 16 to the financial statements. Central to the CCP's risk process is its ability to collect high quality liquid collateral from its Clearing Members as support for their positions. Cash collateral collected from clearing participants is invested in high quality liquid assets to minimise liquidity risk. The Company mitigates foreign exchange risk by investing cash collateral in the same currency in which it is received.

The Company's management views the principal risks and uncertainties that face the Company as those inherent to the provision of clearing services. Non-financial principal risks and uncertainties are set out below.

<u>Litigation</u>

The LME and LME Clear were named as defendants in two judicial review claims filed in the English High Court in 2022 (the JR Proceedings) and three related claims filed in the English High Court in 2023. These sought to challenge the LME's decision to ensure that no trading activity that had taken place on the LME's nickel market after 00:00 UK time on 8 March 2022 until 08:15 when the market was suspended should result in a binding contract under the LME's rules.

On 29 November 2023, the Court gave judgment in the JR Proceedings in the LME's favour on all grounds; full details are provided in note 17 of the financial statements including information on the appeal of the judgment.

<u>UK CCP equivalence</u>

The principal risk facing the Company as a result of the equivalence decision is that it would not be able to provide clearing services for those Clearing Members that reside within the EU. The Company is currently recognised by ESMA as a Tier 1 third country CCP and is therefore able to provide clearing services to its EU Clearing Members. The European Commission announced in February 2022 that it has extended this equivalence decision for a further three years to 30 June 2025.

Strategic report (continued)

Principal risks and uncertainties (continued)

Operational resilience

With the ever-increasing reliance placed on technology, the Company is aware of the need to maintain high degrees of operational and system resilience. In addition, cyber risk is on the rise with financial services companies among the most heavily targeted. In order to mitigate the risks the Company continues to focus on its people, processes and technology. The Company assesses the risks in its processes on an ongoing basis and seeks to continually improve processes and technology to mitigate those risks. The Company has a well-defined operational incident process to manage incidents and to ensure required improvements are identified which may then result in changes to processes or technology.

The Company's cyber risk profile and associated defences are the subject of significant ongoing investment and liaison with key government and other bodies and includes regular penetration testing and training for all employees in key cyber techniques which could be used to compromise the Company.

The Company continues to make technology investments, including cyber security detection and response, as well as applications upgrades to the LMEmercury clearing platform. To assist it in maintaining high levels of operational and systems resilience the Company maintains dual data centres. The Company experienced disruption to its clearing services on 24 October 2023 resulting in LMEmercury being unable to receive trades from LMEsmart between 07:30 and 16:35 from which point LMEmercury was fully restored. The Company has undertaken a review of events and put in place improvements to reduce the risk of this issue recurring in future.

The Bank of England (BoE) published guidance on operational resilience for FMIs and its expectations with a date for full implementation across the Company by March 2025. In 2023 they also introduced a new statement on Outsourcing and Third Party Risk Management, which will apply to the Company from February 2024. The Company takes its position as a key financial market infrastructure provider extremely seriously and intends to fully comply with all these new requirements. Work continues to be underway to further embed and enhance the operational resilience framework and the Company continues to invest heavily in this area.

Regulation and compliance

The Company places a high emphasis on regulatory compliance in all jurisdictions in which it operates and seeks to promote active and co-operative relationships with its lead regulator, the BoE, and maintains an active interest and involvement where appropriate in regulatory matters arising in the UK and other global locations. In particular, following the UK's withdrawal from the EU the Company continues to engage with UK legislators and policy makers as the UK considers its regulatory structure and environment. The implementation of a demanding and still evolving regulatory agenda and other market developments means that regulatory and compliance risks remain key risks.

In March 2023, the BoE announced the results of its supervisory review into the operation of the Company following the events in the nickel market in March 2022. The BoE also announced that it would appoint a skilled person under section 166 of the Financial Services and Markets Act 2000 to independently monitor, assess and report to the BoE on progress of implementation of the Company's implementation plan to strengthen its governance arrangements, increase independence in management and governance at the CCP, and improve on its wider risk management. This review is ongoing.

Emerging risks

Geopolitical and macroeconomic environment

The overall geopolitical and macroeconomic environment continues to generate uncertainty in global supply chains and by extension, increased volatility in commodity markets. Events such as Russia's invasion of Ukraine in early 2022 continued to impact metals market through 2023; mining activism disrupted production at mine sites, and attacks in the Red Sea at the end of 2023 were already affecting supply chains – suggesting that these concerns will persist into 2024.

2024 will be a key year in the political world, as the US prepares for its presidential election in November 2024, and many other democracies including the UK will also hold elections. The outcomes of these elections could have a significant impact on national policies and international relations – especially in key areas such as Middle Eastern conflict, China / Taiwan / US relations, sustainability, and sanctions.

Strategic report (continued)

Emerging risks (continued)

Climate risk

The Company considers climate risk to be an emerging risk that may have an impact on its operations, market, Clearing Members and clients in the medium to long term. The Company has assessed that climate risk does not have any significant impact on its outlook for the near-term.

Section 172 Companies Act 2006

All Directors are collectively responsible for the success of the Company and take their duties and responsibilities, including those set out in section 172(1) of the Companies Act 2006, seriously. Whilst the primary duty of the Directors is owed to the shareholder, the Board considers as part of its discussions and decision-making process the interests of all key stakeholder groups as identified below.

The Board therefore recognises the importance of effective stakeholder engagement in driving the Company's strategic focus of clearing the contracts traded on the LME. Effective stakeholder engagement enables Directors to identify key emerging themes and trends in the markets that are served by the Company.

The Company identifies its key stakeholders as Company employees, Clearing Members, regulators, service providers/suppliers, and its ultimate parent, HKEX.

The Company uses a variety of approaches to engage with its stakeholders throughout the year, including scheduled meetings, consultations, townhalls and Company notices. Thematic results from these interactions with stakeholders are periodically presented to the Directors, primarily by senior management who lead such engagements.

Clearing Member satisfaction, the delivery of cost-effective services and critical system availability are important measures of performance for the Company.

Clearing Members

Ongoing Clearing Member engagement is integral to the Company's governance framework. The Company engages with its membership base through the EMIR Risk Committee which includes Clearing Member and client representatives and also through the Risk Advisory Group to which all Clearing Members are invited to send representatives. The Company also receives metal-specific feedback from advisory committees established by the LME which are consulted on the cleared contracts and underlying physical commodities. During 2023 the Risk Committees and LME advisory committees provided valued input and advice to Company Directors and senior management.

Suppliers and service providers

The Board takes the Company's relationships with its suppliers seriously. This continued to be a key area of focus during 2023.

The Board reaffirms the Company's commitment to ensuring that there is no modern slavery in its organisation or supply chains. A Board-approved Modern Slavery Policy is in place, and this reflects the Company's commitment to acting ethically and with integrity.

Regulators

The Company maintains a regular dialogue with the BoE as well as those regulators with which it has overseas licenses, engaging on relevant matters such as Board and management changes, capital requirements and proposed new products or services.

HKEX

The Company maintains close links with its ultimate parent company. A number of the Company's Directors hold directorships of HKEX or sit on the HKEX Management Committee and there is regular contact and interaction between HKEX management and staff and the Company's employees at all levels across the business.

Employee engagement

The Board recognises that engagement with Company employees is fundamental to the Company's success. Engagement with employees is undertaken by senior management, through townhalls, a variety of employee forums and regular staff surveys.

The Company has continued to be active in implementing measures to maintain and drive engagement. There has been sustained focus on the development of employees, with the launch of several new programmes to deepen leadership capability and enhance internal knowledge throughout the organisation. The Company has also provided employees with increased opportunities to have exposure to, and interact with, the Board and senior management, including through round table discussions with the Chair, Chief Executive and Executive Committee members.

The Company continued to support employee wellbeing this year through the provision of wellness weeks focusing on mental, physical, and financial wellbeing. Investment has been made in healthier breakfast options, and employees now also benefit from an on-site gym at the premises which they are able to use on a complimentary basis.

From a people and culture perspective, the diversity and inclusion arena has remained a focus in 2023. The Company has thriving employee networks raising awareness and engagement on this topic and continues to celebrate diversity through events such as International Women's Day, Pride Month and Black History Month.

The Company remains committed to the Women in Finance Charter, reinforcing its aim to increase gender diversity across the Company. The target is to increase female management representation to 40% by September 2025. The Company's gender diversity strategy consists of five key pillars: attraction, governance, benchmarking, retention and education. Internal initiatives within each of these pillars will support the Company in working towards its five-year target of growing its female representation in senior management positions. Annual progress updates are also published on the Company's website.

The Board believes that transparency around gender pay gap reporting continues to play an important role in understanding and addressing the gender-based inequality that persists in the wider society in which the Company operates. The LME Group's gender pay gap report for 2022 was published in 2023 and showed that progress continues to be made whilst acknowledging that there is still more to do.

Throughout 2024, the Board will continue to review and challenge how the Company can improve engagement with its employees and other stakeholders.

Equal opportunities

The Company is an active equal opportunities employer, which promotes an environment free from discrimination, and where everyone receives equitable treatment and career development regardless of age, disability, sex, gender, gender reassignment, pregnancy, race (which includes colour, nationality and ethnic or national origins), sexual orientation, religion or belief or because someone is married or in a civil partnership among other diverse attributes. All decisions relating to employment practices are objective, free from bias and based on merit. The Company continues to build on its diversity and inclusion strategy and, as part of this, is committed to further enhancing its equal opportunities monitoring.

The Company gives full and fair consideration to applications for employment made by disabled people, and encourages and assists the recruitment, training, career development and promotion of disabled people. The Company also endeavours to retain employees who become disabled during the course of their employment. This includes a commitment to making reasonable adjustments to the employee's working environment where a physical feature or a provision, criterion or practice puts a disabled person at a substantial comparative disadvantage.

The arrangements outlined above are set out in a Company policy, which is subject to periodic review.

Strategic report (continued)

Charitable activities

The Company is committed to its charitable initiatives and engages with a variety of charitable causes at both a corporate and individual employee level. The Company's approach, priorities, and objectives in respect of charitable activities are primarily led by the LME and LME Clear joint Charity Committee.

During the year, the Company also made other charitable donations amounting to $18,000 (2022: $40,000).

The Strategic report was approved by the Board of Directors on 23 February 2024.

Signed by order of the Board of Directors by:

C McSwiggan
Company Secretary
23 February 2024
LME Clear Limited
Registration number 07611628

Directors' report

The Directors submit their annual report to the sole shareholder together with the audited financial statements for the year ended 31 December 2023.

Incorporation

The Company is a private company limited by shares. It was incorporated in the United Kingdom on 21 April 2011. It is domiciled in the UK and registered in England and Wales. It is a wholly owned subsidiary of HKEX Investment (UK) Limited, which is a private company limited by shares.

Results and dividend

The profit before tax for the year ended 31 December 2023 was $37,684,000 (2022: $26,566,000) and after accounting for taxation was $28,662,000 profit (2022: $21,422,000).

The Directors do not propose the payment of a final dividend (2022: $nil). The Company did not pay an interim dividend during the year (2022: $nil)

Directors

The Directors of the Company who were in office during the year and up to the date of signing the financial statements are listed on page 1. David Warren was appointed Chairman with effect from 21 July 2023. Interim Chief Executive Officer (CEO), James Cressy stepped down on 2 October 2023; Michael Carty was appointed as the CEO and a director of the Company on 2 October 2023.

Directors' indemnity and insurance

The Company's Articles of Association provide an indemnity (the Indemnity) for each Director of the Company. The Indemnity, which constitutes a qualifying third-party indemnity provision as defined by section 234 of the Companies Act 2006, was in force during the 2023 financial year and remains in force at the date of signing the financial statements. Directors' and officers' insurance cover is also maintained for Directors of the Company.

Anti-bribery and corruption Policy

The Company supports a culture of integrity, ethical conduct, fairness, honesty and openness when doing business, and zero tolerance of bribery. Accordingly, the Company's policy expressly states that no bribes, kickbacks or similar gifts, payments or advantages are solicited from, or given or offered to, any person, whether in the public or private sector, for any purpose and applies to any persons, when acting on behalf of the Company.

The Modern Slavery Act 2015

The Modern Slavery Act requires companies to prepare a slavery and human trafficking statement for each financial year of the organisation. Modern slavery is a serious global issue and represents one of the worst forms of human rights violation. The Company takes this very seriously and considers that its Directors, management and staff all have a responsibility to be alert to the risks, however small, in the Company's operations and in the wider supply chain. Staff are expected to report concerns and management are expected to act upon them.

Future developments

In 2024, the Company will continue to focus on addressing the recommendations made by the independent review following events in the nickel market in March 2022 as part of a broader effort to rebuild liquidity and trust in the LME's nickel market. The Company will also continue to work on its major technology programme which will deliver a new trading platform to the market in 2024.

The Company will continue to invest in its core clearing and technology services to ensure it remains competitive and continues to offer innovative and cost-effective clearing services for Clearing Members. The Company is assessing its longer-term strategy and is considering opportunities to redevelop its clearing services in concert with commencing preparations for replacing its clearing platform later this decade.

Directors' report (continued)

Financial risk management

Information in respect of the Company's objectives, approach and exposure in respect of foreign exchange risk, price risk, cash flow and fair value interest rate risk, sovereign risk, credit risk and liquidity risk management is provided in note 16 to the financial statements.

Capital risk management

The Company's objectives when managing capital are:

- To safeguard the Company's ability to continue as a going concern, so that it continues to provide returns for the shareholder and benefits for other stakeholders;
- To support the Company's stability and growth;
- To provide capital for the purpose of strengthening the Company's risk management capability; and
- To ensure the Company complies with all regulatory requirements.

The Company holds capital resources in the form of share capital, retained earnings and reserves and actively and regularly reviews and manages its capital structure to ensure optimal capital structure and shareholder returns, taking into consideration the future expected capital requirements of the Company and capital efficiency, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities.

The Company is regulated by the BoE as a Recognised Clearing House under the Financial Services and Markets Act 2000, and under the on-shored UK version of EMIR.

The BoE's capital rules require that the Company must maintain liquid assets and net shareholders' funds in excess of its regulatory capital requirement. Liquid assets are represented by the Company's own cash and cash equivalents together with financial assets measured at amortised cost. Net shareholders' funds comprises total equity less intangible and fixed assets, trade and other receivables and any amounts due from group undertakings.

The Company's regulatory capital requirement amounts to $152,400,000 as at 31 December 2023 (2022: $142,000,000). This includes a contribution to the default fund of $27,500,000 (2022: $25,100,000). In addition, the Company's capital resources must be in the form of share capital, retained earnings and reserves, reduced by intangible assets and retained losses.

Employee engagement

Disclosures regarding action taken by the Company to engage with its employees have been included in the Employee engagement section of the Strategic report.

Disabled persons disclosures

A statement describing the company's policy on the hiring, continuing employment and career development of disabled persons has been included in the equal opportunities section of the Strategic report.

Charitable activities

Disclosures regarding the Company's charitable activities have been included in the Charitable activities section of the Strategic report.

Streamlined energy and carbon reporting

<u>Carbon dioxide emissions</u>

The Company has calculated its annual carbon footprint in line with the Greenhouse Gas (GHG) Protocol Corporate Standard. The total emissions included a range of the Company's operations that included (but not limited to):

- The Company's use of the LME's offices in London;
- Business travel by employees;
- Employee commuting and working from home; and
- Data centres and capital goods.

The three largest contributors to the Company's GHG emissions (by operational areas) in the 2023 base year were all within scope 3 and included goods and services (56% of total emissions), business travel (20%) and data centres (7%).

In October 2022, the Company publicly announced its net-zero target (2040) and its intention to publish a further reduction roadmap in the future. The Company is referencing two initiatives to inform its commitments, impact and progression reporting against this target – the Science Based Targets initiative (SBTi) and the Task Force on Climate-Related Financial Disclosures (TCFD).

UK greenhouse gas emissions and energy use	2023	2022
Total emissions in metric tonnes (carbon dioxide equivalent)	**1,606**	**378**
Emissions breakdown in metric tonnes (carbon dioxide equivalent)		
Scope 1 (direct combustion of fuels and company owned vehicles)	46	-
Scope 2 (emissions from electricity purchased for own use)	47	5
Scope 3 (indirect emissions from business travel)	1,513	373

In 2023, the Company emitted 2.2483 metric tonnes of carbon dioxide equivalent per metre squared of office space (2022: 0.4951 metric tonnes per metre squared).

During the year, 94% of total emissions were within scope 3. Scope 3 emissions increased as a result of higher expenditure within the goods and services category. Scope 1 emissions in 2023 were driven primarily by a refrigerant leak from an air conditioning unit.

The figure for scope 2 for 2023 is based on a market-based calculation that tracks scope 2 emissions based on the specific emissions intensity of the electricity provider, rather than that of the local grid offering (also known as location-based).

The Company has utilised a more in-depth framework, more granular data and higher quality emissions factors in calculating its 2023 emissions data. Revised data relating to historical periods 2019 – 2022 will be made available in future reporting under the SBTi.

Directors' report (continued)

Corporate governance

The Board affirms its commitment to high standard of corporate governance. As a CCP, the Company is required to meet statutory requirements.

The corporate governance structure adopted by the Company is summarised below.

The Board and Board composition

The Articles of Association of the Company prescribe the composition of the Board and the procedures for appointment to it. On 21 June 2023, the shareholders resolved to amend the Articles of Association by Special Resolution amending Article 22 to provide that the total number of directors shall be ten, four of whom shall be independent non-executive directors.

Governance structure

The Board is the main decision-making body for the Company. To assist the Board to effectively discharge its roles and responsibilities, day-to-day management of the Company is delegated to the Chief Executive Officer. The scope of the Chief Executive Officer's role is set out in his or her remit of responsibility.

The UK's Senior Managers Regime (SMR) does not apply to the Company. However, the Board fully supports the SMR's aim of embedding a culture of personal responsibility and accountability at the heart of financial services which, in turn, should raise governance standards, increase individual accountability, and support consumer confidence. The Board therefore made the decision in 2021 to amend its governance structure so that it would be similar to that which would operate under the SMR. A key aspect of these changes was a shift towards clear individual accountability. A key aspect of these changes was a shift towards clear individual accountability. The Board is aware of the legislative proposals to introduce a full Senior Manager Certification Regime for CCPs and look forward to working with policy makers to define the detail.

The Remit of Responsibility for the Chief Executive Officer permits the Chief Executive Officer to sub-delegate his or her responsibilities to accountable executives, and states that ultimate responsibility for any areas of responsibility delegated by the Chief Executive Officer will remain with the Chief executive Officer, while ultimate oversight of any sub-delegated responsibilities will remain with the Board.

The Executive Committee is the primary committee which assists and advises the Chief Executive Officer in the discharge of the duties delegated to them by the Board in his or her Remit of Responsibility. The Executive Committee represents all key roles and functions, representing the key functional areas of the organisation.

The Board is supported by sub-committees to which specific responsibilities are delegated, and advisory committees. During the year, the key committees included the Audit Committee, Technology and Operational Resilience Committee (the Company withdrew from this committee in July 2023), Nomination Committee, Remuneration Committee, EMIR Risk Committee and Board Risk Committee (established July 2023).

Gender metrics

As at 31 December 2023, the Board consisted of two women and eight men (20% female representation).

As at 31 December 2022, the Board consisted of one woman and six men (14% female representation).

In 2022, the Company adopted a Board Diversity and Recruitment Policy which governs director recruitment and sets targets for Board diversity.

Directors' report (continued)

Statement of directors' responsibilities in respect of the financial statements

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with UK-adopted international accounting standards.

Under company law, directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing the financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- State whether applicable UK-adopted international accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- Make judgements and accounting estimates that are reasonable and prudent; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' confirmations

In the case of each Director in office at the date the Directors' report is approved:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Independent auditors

The independent auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office, and a resolution concerning their reappointment will be proposed to the shareholder.

Directors' report (continued)

Going concern

In determining the going concern basis for preparing the financial statements, the Directors consider the Company’s objectives and strategy, its principal risks and uncertainties in achieving its objectives and its review of business performance and financial position, which are all set out in the Strategic report (see pages 2 to 8).

The Directors are satisfied that the Company has adequate resources to continue in operational existence for the foreseeable future. It was noted that the Company remained profitable during the year despite downturn in the global commodities markets. The Company holds capital in excess of regulatory requirements and is forecast to be profitable and cash generating for the foreseeable future. Accordingly the going concern basis for preparing the financial statements is considered appropriate.

The Directors’ report was approved by the Board of Directors on 23 February 2024.

Signed by order of the Board by:

C McSwiggan
Company Secretary
23 February 2024
LME Clear Limited

Independent auditors' report to the members of LME Clear Limited

Report on the audit of the financial statements

Opinion

In our opinion, LME Clear Limited's financial statements:

- Give a true and fair view of the state of the Company's affairs as at 31 December 2023 and of its profit and cash flows for the year then ended;
- Have been properly prepared in accordance with UK-adopted international accounting standards; and
- Have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the annual report and financial statements (the Annual Report), which comprise: the Statement of financial position as at 31 December 2023; the Statement of profit or loss and other comprehensive income, the Statement of changes in equity and the Statement of cash flows for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence
We remained independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the Company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Independent auditors’ report to the members of LME Clear Limited (continued)

Report on the audit of the financial statements (continued)

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors’ report thereon. The Directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors’ report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors’ report
In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors’ report for the year ended 31 December 2023 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors’ report.

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements
As explained more fully in the Statement of directors' responsibilities in respect of the financial statements, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company’s ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Independent auditors' report to the members of LME Clear Limited (continued)

Report on the audit of the financial statements (continued)

Auditors' responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the Company and industry, we identified that the principal risks of non-compliance with laws and regulations related to the Bank of England's regulations, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006 and UK tax legislation. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journals to manipulate financial performance, and management bias in the determination of accounting estimates. Audit procedures performed by the engagement team included:

- Discussions with management, including internal audit, and those charged with governance in relation to known or suspected instances of non-compliance with laws and regulations and fraud;
- Review of internal audit reports and minutes of meetings of the Board and other committees;
- Review of correspondence with, and reports to regulators;
- Identifying and testing journal entries meeting specific criteria, including those posted to unusual account combinations, adjustments posted after year-end, journals containing unusual words and those posted by unexpected users;
- Challenging assumptions and judgements made by management in their accounting estimates, in particular in relation to the capitalisation of software costs and impairment assessments of intangible assets;
- Testing of information security controls relating to system access and change management; and
- Incorporating unpredictability into the nature, timing and extent of audit procedures performed.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report
This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Independent auditors' report to the members of LME Clear Limited (continued)

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- We have not obtained all the information and explanations we require for our audit; or
- Adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- Certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

C Sandford

Claire Sandford (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
23 February 2024

LME Clear Limited

Statement of profit or loss and other comprehensive income
For the year ended 31 December 2023

	Note	2023 $ 000's	2022 $ 000's
Clearing and settlement fees		61,643	56,216
Other revenue		8,275	6,017
Interest income		574,852	253,639
Interest expense		(538,085)	(222,216)
Net interest income		36,767	31,423
Revenue and other income	3	**106,685**	**93,656**
Operating expenses	4	(68,781)	(67,507)
Other (losses) / gains		(220)	417
Profit before tax		**37,684**	**26,566**
Taxation	5	(9,022)	(5,144)
Profit for the year		**28,662**	**21,422**
Cash flow hedges		(173)	353
Changes in fair value of financial assets measured at fair value through other comprehensive income		1,756	(1,677)
Taxation		(379)	339
Other comprehensive income / (expense), net of tax[1]		**1,204**	**(985)**
Total comprehensive income		**29,866**	**20,437**

[1] Other comprehensive income / (expense) comprises only items that have been or subsequently will be reclassified to profit and loss.

No final dividend is proposed in respect of 2023 (2022: $nil). The Company paid interim dividends of $nil in the year (2022: $nil).

All of the profits and comprehensive income included above are derived from continuing operations.

The notes on pages 23 to 55 are an integral part of these financial statements.

LME Clear Limited

Statement of financial position
As at 31 December 2023

	Note	2023 $ 000's	2022 $ 000's
Assets			
Non-current assets			
Intangible assets	6	25,275	15,174
Property, plant and equipment	7	149	252
Deferred tax asset	8	482	832
		25,906	**16,258**
Current assets			
Trade and other receivables	9	5,668	35,901
Cash and cash equivalents	10	8,964,261	14,306,209
Financial assets measured at amortised cost		-	64,449
Financial assets measured at fair value through other comprehensive income	12	1,101,817	864,583
Derivative financial assets	12	7,440,240	10,340,472
		17,511,986	**25,611,614**
Liabilities			
Current liabilities			
Trade and other payables	11	102,799	52,917
Derivative financial liabilities	12	7,440,138	10,340,197
Members' contribution to clearing house funds	12	1,000,734	1,477,041
Margin deposits from clearing participants	12	8,696,247	13,489,530
Current tax liabilities		587	192
Amounts due to fellow undertaking	18	6,860	7,278
		17,247,365	**25,367,155**
Net current assets		**264,621**	**244,459**
Non-current liabilities			
Deferred tax liability	8	79	135
Net assets		**290,448**	**260,582**
Equity			
Share capital	13	178,701	178,701
Foreign currency translation reserve		(1,363)	(1,363)
Hedging reserve		76	206
Revaluation reserve		(444)	(1,778)
Retained earnings		113,478	84,816
Total equity		**290,448**	**260,582**

The notes on pages 23 to 55 are an integral part of these financial statements.

These financial statements were approved by the Board of Directors and signed on its behalf by:

M Carty
Director
23 February 2024

LME Clear Limited

Statement of changes in equity
For the year ended 31 December 2023

	Note	Share capital	Foreign currency translation reserve	Hedging reserve	Revaluation reserve	Retained earnings	Total equity
		$ 000's	$ 000's	$ 000's	$ 000's	$ 000's	$ 000's
At 1 January 2023		**178,701**	**(1,363)**	**206**	**(1,778)**	**84,816**	**260,582**
Profit for the year		-	-	-	-	28,662	28,662
Other comprehensive income – cash flow hedge, revaluation reserve and tax charge		-	-	(130)	1,334	-	**1,204**
Total comprehensive income / (expense)		-	-	**(130)**	**1,334**	**28,662**	**29,866**
At 31 December 2023		**178,701**	**(1,363)**	**76**	**(444)**	**113,478**	**290,448**

For the year ended 31 December 2022

	Note	Share capital	Foreign currency translation reserve	Hedging reserve	Revaluation reserve	Retained earnings	Total equity
		$ 000's	$ 000's	$ 000's	$ 000's	$ 000's	$ 000's
At 1 January 2022		**178,701**	**(1,363)**	**(78)**	**(671)**	**63,595**	**240,184**
Profit for the year		-	-	-	-	21,422	**21,422**
Other comprehensive expense – cash flow hedge, revaluation reserve and tax credit		-	-	284	(1,107)	(162)	**(985)**
Total comprehensive income / (expense)		-	-	**284**	**(1,107)**	**21,260**	**20,437**
Tax charge to equity reserves	5	-	-	-	-	(39)	**(39)**
At 31 December 2022		**178,701**	**(1,363)**	**206**	**(1,778)**	**84,816**	**260,582**

The notes pages 23 to 55 are an integral part of these financial statements.

LME Clear Limited

Statement of cash flows
For the year ended 31 December 2023

	Note	2023 $ 000's	2022 $ 000's
Cash flows from operating activities			
Cash (outflow) / inflow from operating activities	14	(5,317,792)	1,326,027
Effects of foreign exchange movements		290	(450)
Tax paid		(8,711)	(4,269)
Net cash (outflow) / inflow from operating activities		**(5,326,213)**	**1,321,308**
Cash flows from investing activities			
Purchase of intangible assets	6	(15,735)	(5,996)
Net cash outflow from investing activities		**(15,735)**	**(5,996)**
Net (decrease) / increase in cash and cash equivalents		**(5,341,948)**	**1,315,312**
Cash and cash equivalents at the beginning of year		14,306,209	12,990,897
Cash and cash equivalents at the end of year	10	**8,964,261**	**14,306,209**

The notes on pages 23 to 55 are an integral part of these financial statements.

1 Significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all of the periods presented, unless otherwise stated.

1.1 Basis of preparation

The Company's financial statements have been prepared on a going concern basis in accordance with UK-adopted international accounting standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards.

The Company's financial statements are prepared under the historical cost convention as modified by the revaluation of certain financial assets and liabilities measured at fair value, and on the basis of the principal accounting policies set out below.

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. These estimates and assumptions are based on historical experience and other factors that are considered to be relevant. The areas involving a higher degree of judgement or areas where assumptions and estimates are significant to the financial statements are disclosed in note 2.

Changes in accounting policy

From 1 January 2023 the Company transitioned from IAS 39 – 'Financial instruments: Recognition and measurement' hedge accounting to IFRS 9 – 'Financial instruments' hedge accounting. Hedging documentation now includes the hedge ratio and expected sources of ineffectiveness, and the retrospective effectiveness test has been removed in accordance with IFRS 9. This change in accounting policy has been applied prospectively. There has been no change in hedging strategy as a result of the transition. The accounting policy is detailed in note 1.9.

There have been no other significant changes in accounting policies.

1.2 New and amended standards adopted by the Company

In 2023, the Company has adopted the following new/revised international accounting standards which were effective for accounting periods beginning on or after 1 January 2023. These amendments were adopted with effect from 1 January 2023 and have had no financial impact on the Company and no impact on the disclosures.

i) Amendment to IAS 1 – 'Presentation of financial statements': Disclosure of accounting policies.

ii) Amendment to IAS 8 – 'Accounting policies, changes in accounting estimates and errors': Accounting policies, definition of accounting estimates, and accounting estimates and errors.

iii) Amendment to IAS 12 – 'Income taxes': Deferred tax related to assets and liabilities arising from a single transaction.

iv) Amendment to IAS 12 – 'Income taxes': International tax reform.

1.3 New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2023 and not adopted early

The following standards, amendments and interpretations have been issued but are not yet effective for the financial year beginning 1 January 2023 and therefore have not been applied in preparing these financial statements.

i) Amendment to IAS 1 – 'Presentation of financial statements': Non-current liabilities with covenants.

ii) Amendment to IAS 21 – 'The effects of changes in foreign exchange rates': Lack of exchangeability.

They are not expected to have a material impact on the financial statements of the Company.

1 Significant accounting policies (continued)

1.4 Revenue and other income recognition

Revenue and other income excludes value added tax and other sales taxes, and is recognised in the Statement of profit or loss and other comprehensive income on the following basis:

i) Fees for the clearing of trades between Clearing Members transacted on the London Metal Exchange (LME) are recognised in full on the trade match date, net of any applicable discounts or rebates.

ii) Fees for settlement transactions are recognised upon completion of the settlement.

iii) Other revenue comprises:

- Membership fees are recognised on a straight-line basis over time as the performance obligation is satisfied.
- Non-cash collateral fees are charged in connection with custody of non-cash collateral provided by clearing members and are included in other revenue. Recognition is on an accruals basis as the performance obligation is satisfied.

iv) Net interest income comprises:

- Interest income is income earned from short-term investments and interest charged to Clearing Members. Interest charged is based on the LME Clear deposit rate. Interest income is recognised on a time apportionment basis using the effective interest rate method.
- Interest expense is interest payable to Clearing Members. Interest payable is based on the LME Clear deposit rate. Interest expense is recognised on a time apportionment basis using the effective interest rate method.

Deferred revenue (the terminology ‘contract liability’ under IFRS 15 – ‘Revenue from contracts with customers’ is presented as deferred revenue) is recognised when the customers pay considerations before the Company transfers control of goods or satisfies a performance obligation. This represents the unsatisfied performance obligations at year end resulting from long-term contracts.

Accrued revenue (the terminology ‘contract asset’ under IFRS 15 – ‘Revenue from contracts with customers’ is presented as accrued income) is recognised when the Company transfers control of goods or satisfies a performance obligation to a customer and has a right to consideration arising therefrom.

1.5 Staff costs and other expenses

The Company awards shares under the HKEX Group Share Award Scheme (Share Award Scheme), under which the Company receives services from employees as consideration for share awards granted under the Share Award Scheme (Awarded Shares). The fair value of the employee services received in exchange for the Awarded Shares is recognised as employee share-based compensation expense.

The total amount to be expensed is determined by reference to the fair value of the Awarded Shares granted, taking into account all non-vesting conditions associated with the grants. The total expense is recognised over the vesting periods, with a corresponding credit to equity.

The corresponding credit is recorded as a capital contribution in the Company’s financial statements and an increase to investment in subsidiaries in HKEX's financial statements, with a corresponding credit to employee share-based compensation reserve. Any reimbursement by the Company to HKEX is offset against the capital contribution.

1 Significant accounting policies (continued)

1.5 Staff costs and other expenses (continued)

The cost of accumulating compensated absences is recognised as an expense and measured based on the additional amount the Company expects to pay as a result of the unused entitlement that has accumulated at the end of the year.

Other expenses are charged to the Statement of profit or loss and other comprehensive income as incurred.

1.6 Intangible assets

Intangible assets consist of computer software-related projects capitalised when the development stage of the project is completed and the asset can be put into use. Development costs that are directly attributable to the design and testing of identifiable and unique systems controlled by the Company are recognised as intangible assets when the following criteria are met:

i) it is technically feasible to complete the system so that it will be available for use;

ii) management intends to complete the system and use or sell it;

iii) there is an ability to use or sell the system;

iv) it can be demonstrated how the system will generate probable future economic benefits;

v) adequate technical, financial and other resources to complete the development and to use or sell the system are available; and

vi) the expenditure attributable to the system during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as expenses as incurred. Costs incurred in configuring or customising software in a cloud computing arrangement can only be recognised as intangible assets if the activities create to an intangible asset that the Company controls and the intangible asset meets the recognition criteria. Those costs that do not result in intangible assets are expensed as incurred, or, in certain circumstances, over the expected renewable terms of the cloud computing arrangement. Costs associated with maintaining computer systems are recognised as expenses as incurred.

System development costs recognised as assets are amortised on a straight line basis over their estimated useful lives, which do not exceed five years.

The Company selects its amortisation rates based on expected economic lives, taking into account the expected rate of technological developments, market requirements, obsolescence and expected use of the assets. The selected rates are regularly reviewed to ensure they remain appropriate to the Company’s circumstances. Residual values and economic lives are reviewed at each balance sheet date. An asset’s carrying amount is written down immediately to its recoverable amount if the asset’s carrying amount is greater than its estimated recoverable amount.

Capitalised assets under development which are not yet ready for use are not amortised but are reviewed for impairment at each balance sheet date.

1 Significant accounting policies (continued)

1.7 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the assets. They are depreciated when they are available for use at rates sufficient to write off their costs net of expected residual values over their estimated useful lives on a straight line basis. The residual values and useful lives are reviewed at the balance sheet date.

Computer systems and equipment (hardware) - three to five years.

Furniture, fixtures and fittings - three to five years.

1.8 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, current bank balances and other short-term highly liquid investments and reverse repurchase arrangements that are readily convertible into known amounts of cash and are subject to an insignificant risk of changes in value with original maturities of three months or less.

Reverse repurchase agreements are recorded in the Statement of financial position within cash and cash equivalents, reflecting the nature of these arrangements as short-term highly liquid investments as defined in the previous paragraph. Securities purchased under these agreements and that are resold at a specified future date are not recognised in the Statement of financial position. Cash amounts received as collateral under these agreements are recognised in the Statement of financial position and a collateral liability is recognised in trade and other payables.

1.9 Hedge accounting

The Company designates certain financial instruments as cash flow hedges in respect of highly probable forecast transactions such as payroll costs.

From 1 January 2023 the Company has adopted IFRS 9 hedge accounting. At the point of designation of each hedge, the Company documents the relationship between the hedging instrument and hedged item(s) as well as its risk management objectives and strategy for undertaking hedge accounting. The Company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the hedging instrument is highly effective in offsetting changes in the cash flows of hedged items.

The instruments used for hedging purposes are set out at note 12. Movements on the hedging reserve in other comprehensive income are shown in note 12. All hedged items will be settled within 12 months and therefore hedged instruments are recorded as current assets.

The effective portion of changes in the fair value of financial instruments that are designated as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the Statement of profit or loss and other comprehensive income within other gains / (losses).

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss and are recognised in the Statement of profit or loss and other comprehensive income within the relevant cost category or the Statement of financial position when the hedge item is a prepayment (trade and other receivables) or the purchase of intangible assets.

When a hedging instrument no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the Statement of profit or loss and other comprehensive income. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the Statement of profit or loss and other comprehensive income within other gains / (losses).

1 Significant accounting policies (continued)

1.10 Financial assets

The Company classifies its financial instruments into the following categories:

- those measured at fair value through profit or loss; or
- those measured at fair value through other comprehensive income; and
- those measured at amortised cost.

The classification depends on the business model for managing the financial assets and the contractual terms of the cash flows. The Company reclassifies debt investments only in the event that its business model for managing those investments changes.

Financial assets are classified as current assets unless they are expected to mature or be disposed of after twelve months from the end of the reporting period, in which case they are included in non-current assets. Financial assets derived from margin deposits or Clearing Members' contributions to clearing house funds are classified as current assets as they will be liquidated whenever required.

i) Financial assets measured at fair value through profit or loss

Assets are classified as financial assets measured at fair value through profit or loss (FVPL) if they do not meet the conditions to be measured at fair value through other comprehensive income or amortised cost. Derivative financial instruments (see further detail in note 1.11) are classified as FVPL financial assets when their fair values are positive.

At initial recognition, the Company measures a FVPL financial asset at its fair value. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

ii) Financial assets measured at fair value through other comprehensive income

A financial asset is measured at fair value through other comprehensive income (FVOCI) if it meets both of the following conditions and is not designated as at fair value through profit or loss:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

At initial recognition, the Company measures a FVOCI financial asset at its fair value plus transaction costs that are directly attributable to the acquisition of the financial asset.

Financial assets measured at FVOCI are subsequently measured at fair value. Other changes in carrying amounts are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit and loss. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in the Statement of profit or loss and other comprehensive income.

Impairment
The Company assesses on a forward-looking basis the expected credit losses associated with its assets measured at fair value through other comprehensive income. Expected credit losses are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls.

In measuring expected credit losses, the Company takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

1 Significant accounting policies (continued)

1.10 Financial assets (continued)

ii) Financial assets measured at fair value through other comprehensive income (continued)

For financial assets measured at fair value through other comprehensive income, the Company recognises a provision for impairment losses equal to 12-month expected credit losses unless there has been a significant increase in the credit risk of the financial assets since initial recognition, in which case the provision for impairment losses is measured at an amount equal to lifetime expected credit losses.

Expected credit losses are measured at each reporting date to reflect changes in the financial asset's credit risk since initial recognition. Any change in the expected credit loss amount is recognised as an impairment loss or reversal of impairment loss in the Statement of profit or loss and other comprehensive income, with a corresponding adjustment to the carrying amount.

iii) Financial assets measured at amortised cost

Assets are classified under financial assets measured at amortised cost if they satisfy both of the following conditions:

- the assets are held within business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets within trade and other receivables and amounts due from group undertakings are also classified under this category.

Financial assets measured at amortised cost are initially recognised at fair value plus transaction costs and subsequently carried at amortised cost using the effective interest method. The amortised cost is reduced by loss allowance for expected credit losses. Interest income, foreign exchange gains and losses and impairment are recognised in the Statement of profit or loss and other comprehensive income. Any gains and losses on de-recognition are recognised in the Statement of profit or loss and other comprehensive income.

Impairment
The Company assesses on a forward looking basis the expected credit losses associated with its financial assets measured at amortised cost.

For receivables due from customers, the Company applies the simplified approach permitted by IFRS 9 – 'Financial instruments', which requires expected lifetime losses to be recognised from initial recognition of the receivables. Expected credit losses of receivables are estimated using a provision matrix based on the Company's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

Expected credit losses are re-measured at each reporting date to reflect changes in the financial assets credit risk since initial recognition. Any change in the expected credit loss amount is recognised as an impairment loss or reversal of impairment loss in the Statement of profit or loss and other comprehensive income, with a corresponding adjustment to the carrying amount.

The gross carrying amount of a financial asset is written off (partially or in full) to the extent that there is no realistic prospect of recovery. Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in the Statement of profit or loss and other comprehensive income in the period in which the recovery occurs.

1 Significant accounting policies (continued)

1.11 Derivative financial assets and liabilities

Derivative financial instruments include forward, futures and options contracts, comprising the outstanding derivatives contracts between the Company and its Clearing Members, as the Company is the central counterparty (CCP) to all contracts traded on the LME as well as forward foreign exchange contracts used to manage the Company's foreign exchange risk.

Futures contracts are margined under a realised variation margin basis and are cash settled to market on a daily basis.

Derivatives are initially recognised at fair value on the date contracts are entered into and are subsequently re-measured at their fair values. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged and the type of hedge relationship designated.

The Company designates forward foreign exchange contracts as hedges of foreign exchange risk associated with the cash flows of highly probable forecast transactions and changes in the fair value of these derivatives are recognised in other comprehensive income to the extent that the hedges are effective.

Derivatives not designated as hedging instruments are categorised as held for trading with changes in fair value recognised in Statement of profit or loss and other comprehensive income. These derivatives outstanding on the reporting date are classified as financial assets measured at fair value through profit or loss when their fair values are positive and as financial liabilities at fair value through profit or loss when their fair values are negative. Since the asset and liability positions of the Company arising through its activities as a CCP are matched, the same amount is recorded for both the assets and liabilities with the fair value gain and losses recognised, but offset, in the Statement of profit or loss and other comprehensive income.

Derivative financial assets and liabilities are offset and the net amount reported in the Statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

1.12 Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are initially recognised at fair value, and subsequently measured at amortised cost.

1.13 Members' contributions to clearing house funds

Members' contributions to the clearing house funds (default funds) are included under current liabilities. Liabilities held in this category are initially recognised at fair value and subsequently re-measured at amortised cost using the effective interest rate method.

1.14 Margin deposits and cash collateral from clearing members

The Company receives margin deposits from its Clearing Members as collateral in connection with the outstanding derivatives contracts between the Company and its Clearing Members. The obligation to refund the margin deposits is disclosed as margin deposits from clearing members under current liabilities. Liabilities held in this category are initially recognised at fair value and subsequently re-measured at amortised cost using the effective interest rate method.

Non-cash collateral (i.e. securities) received from Clearing Members is not recognised on the Statement of financial position as they remain in the beneficial ownership of the Clearing Members.

1 Significant accounting policies (continued)

1.15 Current and deferred tax

Tax charge for the year comprises current and deferred tax. Tax is recognised in the Statement of profit or loss and other comprehensive income.

i) Current tax

The current tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the United Kingdom. Provisions are established where appropriate on the basis of amounts expected to be paid to the tax authorities.

ii) Deferred tax

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Tax rates enacted or substantively enacted by the end of the reporting period are used to determine the deferred tax assets and liabilities.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences or the current tax losses can be utilised.

The Company has made a determination that recognised deferred tax asset will be recoverable using the estimated future taxable income based on the Company’s approved budget which forecasts continued taxable income.

1.16 Foreign currencies

The financial statements are presented in US dollars (USD), which is the Company’s presentation and functional currency.

Monetary assets and liabilities denominated in currencies other than the functional currency are translated into USD at the rates of exchange ruling on the Statement of financial position date. Transactions in foreign currencies are recorded at the prevailing foreign exchange rates at the date of the transaction. Exchange differences are recorded in other gains / (losses) in the Statement of profit or loss and other comprehensive income.

1.17 Provisions and contingencies

A provision is recognised where there is a present obligation, whether legal or constructive, as a result of a past event for which it is more likely than not that a transfer of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Contingent liabilities are possible obligations whose existence will only be confirmed by future events not wholly within the control of the Company, or present obligations where it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured with sufficient reliability. Contingent liabilities are not recognised in the financial statements but are disclosed, if material, unless the possibility of an outflow of economic resources is considered remote.

Contingent assets are possible assets that arise from past events and whose existence will be confirmed only future events not wholly within the control of the Company. Contingent assets are not recognised in the financial statements but are disclosed only when an inflow of economic benefits is probable. A contingent asset is not recognised until the future event occurs and confirms the asset’s existence, or when it becomes virtually certain that the future event will occur and the asset will be realised.

1 Significant accounting policies (continued)

1.18 Equity

i) Share capital

Ordinary shares are classified as equity.

ii) Foreign currency translation reserve

The Company changed its presentation currency from British pounds sterling (GBP) to US dollars in 2014. In doing so, the 2013 comparative financial results were restated in US dollars, resulting in the recognition of a foreign currency translation reserve.

iii) Hedging reserve

The hedging reserve arises from the effective portion of fair value gains and losses on hedging instruments prior to the recognition of the related hedged item, and the associated deferred taxation. Further details of hedging are set out in note 1.9.

iv) Revaluation reserve

The revaluation reserve arises from fair value gains and losses on financial assets at FVOCI, and the associated deferred taxation. Further details are set out in note 1.10 (ii).

v) Retained earnings

Retained earnings includes all current and prior period retained profits, taxation recognised directly in equity and transactions with the Company's shareholder, such as dividends paid.

1.19 Dividends

The dividend distribution to the Company's sole shareholder is recognised as a liability in the Company's financial statements in the period in which the dividend is approved by the Company's shareholder.

2 Critical accounting estimates and assumptions

Judgements and estimates are regularly evaluated based on historical experience, current circumstances and expectations of future events.

In connection with the preparation of the financial statements, management has made assumptions and estimates about future events and applied judgements that affect the reported amounts of assets, liabilities, revenue, expenses and the related disclosures. The assumptions, estimates and judgements are based on historical experience and other factors that management believes to be relevant at the time the financial statements are prepared. On a regular basis, management reviews the accounting policies, assumptions, estimates and judgements to ensure that the financial statements are presented fairly and in accordance with UK-adopted international accounting standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards.

Intangible assets

As described in notes 1.6 and 6, the Company incurs significant expenditure on the development of software and implementation of systems. The judgements regarding capitalisation and impairment, and the estimation of the useful life of the assets have a material impact on these financial statements.

The Company follows the accounting policy described in note 1.6.

The Company has carefully considered the following judgements:

i) whether costs meet the capitalisation criteria under IAS 38 ‘Intangible Assets’; and
ii) whether the asset is impaired.

The Company estimates the useful life of its software to be five years for trading systems and three years for non-trading systems based on the expected technical obsolescence of the asset. However the actual useful life may be shorter or longer. If the actual useful life is determined to be shorter, the amortisation charged to the Statement of profit or loss and other comprehensive income will be adjusted.

Contingent liabilities

As described in note 17, the Company has been named as a defendant in two judicial review claims filed in the English High Court.

The Company follows the accounting policy described in note 1.17.

The Company has carefully considered the following judgements:

i) whether there is a present obligation, whether legal or constructive, as a result of a past event for which it is more likely than not that a transfer of economic benefits will be required to settle the obligation; and

ii) if a present obligation exists, whether a reliable estimate can be made of the amount of the obligation.

On 29 November 2023, the Court gave judgment in the LME and LME Clear’s favour on all grounds and ordered the claimants to pay the LME and LME Clear’s costs of the JR Proceedings, which are to be assessed by the Court if not agreed with the claimants.

One of the claimants has sought and been granted permission to appeal. The Company’s management is of the view that the appeal is without merit and the LME and LME Clear will contest it vigorously.

Taking into account the current status of the claims and appeal process, the Company is of the view that a present obligation does not exist. Accordingly no provision has been made in these financial statements but a contingent liability has been disclosed as set out in note 17.

3 Revenue and other income

Timing of revenue recognition	2023 $ 000's	2022 $ 000's
At a point in time	99,398	84,341
Over time	7,287	9,315
	106,685	**93,656**

4 Operating expenses

Operating expenses comprise the following:

	2023 $ 000's	2022 $ 000's
Wages and salaries	24,240	22,030
Social security costs	1,959	1,912
Other pension costs	919	744
Share-based payments	1,452	2,179
Legal and professional fees	5,960	4,540
Depreciation	103	104
Amortisation	5,634	6,488
Technology costs	7,590	7,210
Other costs	20,924	22,300
Total	**68,781**	**67,507**

During the year the Company obtained the following services from the Company's external auditors at costs as detailed below:

	2023 $ 000's	2022 $ 000's
Statutory audit of the Company's financial statements	295	272
Audit related assurance services	250	26
	545	**298**

The number of employees (excluding directors) was:

	2023	2022
At 31 December	74	69
Monthly average for the year	71	68

5 Taxation

	Note	2023 $ 000's	2022 $ 000's
Income tax			
Current year		9,081	5,049
Adjustments in respect of prior years		17	(13)
Foreign exchange		(5)	42
Total current tax		**9,093**	**5,078**
Deferred tax			
Deferred tax for the current year		(49)	118
Adjustments in respect of prior years		(9)	(21)
Change in tax rate		(13)	(31)
Total deferred tax	**8**	**(71)**	**66**
Taxation charge		**9,022**	**5,144**

Factors affecting the tax charge for the year

The reconciling items between the standard rate of corporation tax in the UK of 23.52% (2022: 19%) and the taxation charge for the year are explained below:

	2023 $ 000's	2022 $ 000's
Profit before tax	**37,684**	**26,566**
Profit before tax multiplied by the standard rate of corporation tax in the UK of 23.52% (2022: 19%)	8,863	5,048
Foreign exchange	(5)	42
Taxation on share schemes	155	110
Expenses not deductible / income not taxable	14	9
Adjustments in respect of prior years	8	(34)
Change in tax rate	(13)	(31)
Taxation charge	**9,022**	**5,144**

Tax charged / (credited) to equity:	2023 $ 000's	2022 $ 000's
Current tax - share options	-	(69)
Deferred tax - share options	(2)	108
Deferred tax - prior year	2	-
Taxation charge	**-**	**39**

Notes to the financial statements (continued)

6 Intangible assets

For the year ended 31 December 2023	Capitalised software in use $ 000's	Capitalised software under development $ 000's	Total $ 000's
Costs			
At 1 January 2023	69,517	9,750	79,267
Additions	5,932	9,803	15,735
Disposals	-	-	-
Transfer	8,529	(8,529)	-
At 31 December 2023	**83,978**	**11,024**	**95,002**
Accumulated amortisation			
At 1 January 2023	(64,093)	-	(64,093)
Charge for the year	(5,634)	-	(5,634)
Write back on disposal	-	-	-
At 31 December 2023	**(69,727)**	**-**	**(69,727)**
For the year ended 31 December 2022			
Costs			
At 1 January 2022	69,993	5,316	75,309
Additions	-	5,996	5,996
Disposals	(2,038)	-	(2,038)
Transfer	1,562	(1,562)	-
At 31 December 2022	**69,517**	**9,750**	**79,267**
Accumulated amortisation			
At 1 January 2022	(59,643)	-	(59,643)
Charge for the year	(6,488)	-	(6,488)
Write back on disposal	2,038	-	2,038
At 31 December 2022	**(64,093)**	**-**	**(64,093)**
Net book value			
At 31 December 2023	**14,251**	**11,024**	**25,275**
At 31 December 2022	5,424	9,750	15,174

Amortisation of intangibles is recognised in operating expenses in the Statement of profit or loss and other comprehensive income.

7 Property, plant and equipment

For the year ended 31 December 2023	Computer hardware	Furniture, fixture and fittings	Total
	$ 000's	$ 000's	$ 000's
Costs			
At 1 January 2023	2,255	6	2,261
Additions	-	-	-
At 31 December 2023	**2,255**	**6**	**2,261**
Accumulated depreciation			
At 1 January 2023	(2,003)	(6)	(2,009)
Charge for the year	(103)	-	(103)
At 31 December 2023	**(2,106)**	**(6)**	**(2,112)**
For the year ended 31 December 2022			
Costs			
At 1 January 2022	2,255	6	2,261
Additions	-	-	-
At 31 December 2022	**2,255**	**6**	**2,261**
Accumulated depreciation			
At 1 January 2022	(1,899)	(6)	(1,905)
Charge for the year	(104)	-	(104)
At 31 December 2022	**(2,003)**	**(6)**	**(2,009)**
Net book value			
At 31 December 2023	**149**	**-**	**149**
At 31 December 2022	252	-	252

Depreciation of property, plant and equipment is recognised in operating expenses in the Statement of profit or loss and other comprehensive income.

Notes to the financial statements (continued)

8 Deferred tax asset / (liability)

The movements in the deferred tax asset during the year are shown below:

	Fixed and intangible assets $ 000's	Employee benefits $ 000's	Share options $ 000's	Cash flow hedge $ 000's	Revaluation reserve $ 000's	IFRS 9 transitional adjustment $ 000's	Total $ 000's
At 1 January 2022	**37**	**-**	**398**	**20**	**142**	**(76)**	**521**
Adjustments in respect of prior years credited							
- to profit or loss	-	2	19	-	-	-	21
Effects of changes in tax rates credited /(charged)							
- to profit or loss	7	-	24	-	-	-	31
- to other comprehensive income	-	-	-	(22)	109	-	87
Other credits /(charges)							
- to profit or loss	18	(2)	(134)	-	-	-	(118)
- to other comprehensive income	-	-	-	(67)	320	10	263
- to equity	-	-	(108)	-	-	-	(108)
At 31 December 2022	**62**	**-**	**199**	**(69)**	**571**	**(66)**	**697**
Adjustments in respect of prior years credited							
- to profit or loss	8	1	-	-	-	-	9
- to equity	-	-	2	-	-	-	2
Effects of changes in tax rates credited / (charged)	-	-	-	-	-	-	-
- to profit or loss	3	-	10	-	-	-	13
- to other comprehensive income	-	-	-	3	(8)	(1)	(6)
Other credits / (charges)							
- to profit or loss	36	(1)	14	-	-	-	49
- to other comprehensive income	-	-	-	41	(413)	13	(359)
- to equity	-	-	(2)	-	-	-	(2)
At 31 December 2023	**109**	**-**	**223**	**(25)**	**150**	**(54)**	**403**

Deferred taxation is calculated in full on temporary differences under the liability method.

The deferred tax assets and liabilities have arisen as a consequence of movements in fixed assets, movements in revaluation reserve, adoption of IFRS 9 and share options.

	2023			2022		
	Current $ 000's	Non-current $ 000's	Total $ 000's	Current $ 000's	Non-current $ 000's	Total $ 000's
Deferred tax asset	191	291	**482**	426	406	**832**
Deferred tax liability	(39)	(40)	**(79)**	(82)	(53)	**(135)**
Net deferred tax (liability) / asset	**152**	**251**	**403**	**344**	**353**	**697**

8 Deferred tax asset / (liability) (continued)

Factors that may affect future tax charges

The Company will receive tax relief on the same basis as amortisation of intangible assets.

Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws substantively enacted at the balance sheet date.

Current tax and deferred tax

The UK corporation tax rate applicable to the Company increased from 19% to 25% effective 1 April 2023.

Legislation in respect of Pillar Two income taxes was enacted in the UK on 11 July 2023, and will apply to periods commencing on or after 1 January 2024. The Company is a subsidiary of a group of companies, that are in scope of the enacted legislation. The ultimate controlling company, HKEX, has performed an initial impact assessment of its UK sub-group's potential exposure to Pillar Two income taxes.

Based on the assessment performed, it is anticipated that the UK sub-group will be able to take advantage of the Country-by-Country Reporting Transitional Safe Harbours available given that the UK entities are subject to tax at a rate greater than 15%. The Company does therefore not anticipate a material exposure to Pillar Two income taxes.

The IAS 12 exception to recognise and disclose information about deferred tax assets and liabilities related to Pillar Two income taxes has been applied.

9 Trade and other receivables

	2023	**2022**
	$ 000's	**$ 000's**
Accrued income	5,034	35,255
Prepayments	632	645
Other receivables	2	1
	5,668	**35,901**

The maximum exposure to credit risk at the reporting date is the book value of the accrued income and other receivable balances above. The Company holds cash and non-cash collateral as security as described further in note 10.

As at 31 December 2023 expected lifetime losses were $nil (2022: $nil).

The historical loss rates are adjusted to reflect current and forward-looking information affecting the ability of customers to settle receivables. There has been no history of default since launch in 2014.

In respect of forward-looking information, the Company takes into account the results of its regular credit assessments of its Clearing Members and it has default mechanisms which allow it to reclaim any outstanding trade and other receivables. Accordingly, taking these factors into account, the loss provision is $nil (2022: $nil).

10 Cash and cash equivalents

The cash and cash equivalents represent cash at bank and short-term investments.

	2023 $ 000's	2022 $ 000's
Cash at bank	110,855	30,448
Short-term investments		
- reverse repurchase agreements	8,853,406	14,275,761
	8,964,261	**14,306,209**

$8,793,998,000 (2022: $14,275,761,000) of short-term investments are fully collateralised by or are comprised of sovereign and investment grade corporate securities in accordance with eligibility criteria approved by the Company's Clearing Risk Committee.

$59,408,000 (2022: $nil) of short-term investments are fully collateralised by cash amounts that are included in cash at bank and a collateral liability has been recognised in trade and other payables.

A significant component of cash and cash equivalents comprise amounts initially received from Clearing Members in cash as initial and variation margin, and as contributions to the default funds. In compliance with the on-shored UK version of EMIR, these amounts are held in accounts separate from the Company's own resources.

The Company's own cash and cash equivalents comprise $369,097,000 (2022: $204,221,000) of cash and cash equivalents, of which $27,500,000 (2022: $25,100,000) is restricted as the Company's own resources to be used in the default waterfall.

11 Trade and other payables

	2023 $ 000's	2022 $ 000's
Social security and other taxes	2,996	2,302
Other payables	431	1,087
Cash collateral received on reverse repurchase agreements	59,408	-
Accrued interest payable	34,738	46,079
Accruals and deferred income	5,226	3,449
	102,799	**52,917**

Trade and other payables totalling $102,799,000 have contractual payment terms of less than three months (2022: $52,917,000).

Notes to the financial statements (continued)

12 Financial instruments and hedge accounting

Fair value measurements

The following table presents the carrying value of financial assets and financial liabilities measured at fair values according to the levels of the fair value hierarchy defined in IFRS 13: Fair value measurement, with the fair value of each financial asset and financial liability categorised based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

- Level 1: fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments.
- Level 2: fair values measured using valuation techniques in which all significant inputs other than quoted prices included within Level 1 are directly or indirectly based on observable market data.
- Level 3: fair values measured using valuation techniques in which any significant input is not based on observable market data.

	At 31 Dec 2023		
	Level 1 $ 000's	Level 2 $ 000's	Total $ 000's
Financial assets measured at fair value through profit or loss:			
Base metal futures and options derivative contracts	-	7,440,138	7,440,138
Forward foreign exchange contracts	-	102	102
	-	**7,440,240**	**7,440,240**
Financial assets measured at fair value through other comprehensive income:			
Debt securities	1,101,817	-	1,101,817
	1,101,817	**-**	**1,101,817**
Financial liabilities measured at fair value through profit or loss:			
Base metal futures and options derivative contracts	-	7,440,138	7,440,138
	-	**7,440,138**	**7,440,138**
Net financial assets	**1,101,817**	**102**	**1,101,919**

Notes to the financial statements (continued)

12 Financial instruments and hedge accounting (continued)

	At 31 Dec 2022		
	Level 1	**Level 2**	**Total**
	$ 000's	**$ 000's**	**$ 000's**
Financial assets measured at fair value through profit or loss:			
Base metal futures and options derivative contracts	-	10,340,197	10,340,197
Forward foreign exchange contracts	-	275	275
	-	**10,340,472**	**10,340,472**
Financial assets measured at fair value through other comprehensive income:			
Debt securities	864,583	-	864,583
	864,583	**-**	**864,583**
Financial liabilities measured at fair value through profit or loss:			
Base metal futures and options derivative contracts	-	10,340,197	10,340,197
	-	**10,340,197**	**10,340,197**
Net financial assets	**864,583**	**275**	**864,858**

During 2023 and 2022, no financial assets or financial liabilities were classified under Level 3 and there were no transfers of instruments between Levels 1 and 2.

The value of level 2 instruments is derived from the spot process of underlying contracts or similar.

The Company's policy is to recognise transfers into and out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer.

Fair value of financial assets and financial liabilities not reported at fair values

The carrying amounts of short-term receivables (i.e. trade and other receivables, cash and cash equivalent and amounts due from group undertakings) and short-term payables (e.g. trade and other payables, and amounts due to group companies) approximated their fair values, and accordingly no disclosure of the fair values of these items is presented.

The fair value of financial assets measured at amortised cost as at 31 December 2023 was $nil (2022: $64,206,000). During 2023 and 2022 all financial assets measured at amortised cost were level 1 instruments.

Impairment

No provision for impairment loss was made at 31 December 2023 (2022: $60,000) as the financial assets were considered to be of low credit risk and the expected credit loss was minimal.

Debt securities held were of investment grade and had a weighted average credit rating of AAA. They had no history of default and there was no unfavourable current and forecast general economic conditions as at the reporting dates.

12 Financial instruments and hedge accounting (continued)

Offsetting financial assets and financial liabilities

The Company reports financial assets and financial liabilities on a net basis on the balance sheet where there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. The Company applies offsetting by settlement date and by Clearing Member account to its open derivative contracts as at each reporting date.

As a CCP, the Company sits in the middle of Clearing Members' transactions and holds initial and variation margin amounts as a collateral against the default of a Clearing Member. A further amount of cash collateral is held comprising the default funds. Whilst these amounts are not available for offset on the Statement of financial position, in the event of default these balances would reduce the Company's exposure further under the Rules of the clearing house. Default funds of $1,000,734,000 (2022: $1,477,041,000) and margin funds of $8,696,247,000 (2022: $13,489,530,000) are held by the Company and have maturities of less than three months.

The following table shows the impact of netting arrangements on all financial assets and liabilities subject to master netting agreements that are reported net on the balance sheet.

Offsetting financial assets and financial liabilities (continued)

As at 31 December 2023				**Related amounts not offset in the Statement of financial position**		
	Gross amounts recognised	**Gross amounts offset**	**Net amount presented in the Statement of financial position**	**Financial (liabilities) / assets other than cash collateral**	**Cash collateral received**	**Total**
	$ 000's	**$ 000's**	**$ 000's**	**$ 000's**	**$ 000's**	**$ 000's**
Derivative financial						
- assets	152,323,670	144,883,532	7,440,138	(5,728,296)	(1,711,842)	-
- liabilities	(152,323,670)	(144,883,532)	(7,440,138)	5,728,296	-	(1,711,842)

As at 31 December 2022				**Related amounts not offset in the Statement of financial position**		
	Gross amounts recognised	**Gross amounts offset**	**Net amount presented in the Statement of financial position**	**Financial (liabilities) / assets other than cash collateral**	**Cash collateral received**	**Total**
	$ 000's	**$ 000's**	**$ 000's**	**$ 000's**	**$ 000's**	**$ 000's**
Derivative financial						
- assets	194,063,876	182,337,254	11,726,622	(7,111,779)	(4,614,843)	-
- liabilities	(194,063,876)	(182,337,254)	(11,726,622)	7,111,779	-	(4,614,843)

As at 31 December 2023 the Company held $8,853,406,000 (2022: $14,275,761,000) in reverse repurchase agreements of which $8,793,998,000 (2022: $14,275,761,000) are fully collateralised with non-cash collateral and $59,408,000 (2022: $nil) are fully collateralised with cash collateral.

12 Financial instruments and hedge accounting (continued)

Hedge accounting

The Company's forward foreign exchange contracts have been designated as a cash flow hedge of foreign exchange risks associated with the cash flows of highly probable forecast transactions relating to the Company's staff costs and related expenses, technology costs, legal expenses and intangible assets.

IFRS 9 hedge accounting has been adopted prospectively from 1 January 2023 and no ineffectiveness has arisen on transition. Hedge effectiveness is determined at the inception of the hedge relationship, and through periodic prospective effectiveness assessments, to ensure that an economic relationship exists between the hedged item and hedging instrument. For hedges of future purchases in sterling, the Company enters into hedge relationships where the critical terms of the hedging instrument (amount, currency and maturity dates) match exactly with the terms of the hedged item. The Company therefore performs a qualitative assessment of effectiveness.

If changes in circumstances affect the terms of the hedged item, such that the critical terms no longer match exactly with the critical terms of the hedging instrument, the Company uses the hypothetical derivative method to assess effectiveness. In hedges of future purchases in sterling, ineffectiveness might arise if the timing of the forecast transaction changes from what was originally estimated, or if there are changes in the credit risk of the UK or the derivative counterparty.

Further details of the hedging instruments that have been designated as cash flow hedges of the Company's highly probable forecast transactions and the hedged items at the end of the reporting period are as follows:

	2023 $ 000's	2022 $ 000's
Forward foreign exchange contracts		
Carrying amount	102	275
Notional amount	24,077	18,970
Maturity date	0 – 12 months	0 - 12 months
Hedge ratio	1:1	1:1
Change in fair value of outstanding hedging instruments since inception of the hedge	102	275
Change in value of hedged item used to determine hedge ineffectiveness	102	275
Weighted average hedged rate for outstanding hedging instruments (including forward points) USD:GBP	1.26854	1.19311

The hedging instruments are denominated in the same currency as the hedged items so the hedge ratio is 1:1.

12 Financial instruments and hedge accounting (continued)

Hedge accounting (continued)

Movements in the hedging reserve during the year are shown below:

	2023 $ 000's	2022 $ 000's
At 1 January	206	(78)
Gain on hedging instruments recognised in other comprehensive income	585	1,355
Reclassified to profit or loss:		
- Wages and salaries	(430)	(867)
- Legal and professional fees	(42)	-
- Other costs	(39)	-
- Other losses	(10)	-
Reclassified to Statement of financial position		
- Intangible assets	(238)	(293)
Deferred tax charge to other comprehensive income	44	89
At 31 December	**76**	**206**

During the year $10,000 of hedge ineffectiveness was recognised (2022: $nil).

Notes to the financial statements (continued)

13 Share capital

	2023 $ 000's	2022 $ 000's
Total share capital	178,701	178,701

The Company has 107,500,001 (2022:107,500,001) ordinary shares in issue, each with a nominal value of £1. There is no restriction on the number of shares to be issued.

14 Cash flows from operating activities

Reconciliation of profit before tax to net cash (outflow) / inflow from operating activities:

	2023 $ 000's	2022 $ 000's
Profit before tax	37,684	26,566
Adjustments for:		
Depreciation and amortisation	5,737	6,592
(Decrease) / increase in intercompany payable	(418)	1,519
Effects of foreign exchange movements	(290)	450
Decrease / (increase) in financial assets measured at amortised cost	64,449	(25,109)
Increase in financial assets measured at fair value through profit and loss or other comprehensive income	(235,478)	(505,640)
Other non-cash movements	(1)	78
Decrease / (increase) in accounts receivable	30,233	(28,166)
Increase in accounts payable, accruals and other liabilities	49,882	46,391
(Decrease) / Increase in margin deposits and default fund	(5,269,590)	1,803,346
Cash (outflow) / inflow from operating activities	**(5,317,792)**	**1,326,027**

15 Dividends paid to shareholder

The Company did not pay an interim dividend during the year (2022: $nil).

16 Financial risk management

The Company's activities expose it to some financial risks: market risk (including foreign exchange risk, interest rate risk, and market price risk), sovereign risk, liquidity risk and credit risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's performance.

a) Market risk

Market risk is the risk of loss arising from movements in observable market variables such as foreign exchange rates, equity prices and interest rates. The Company is exposed to market risk primarily through its financial assets and financial liabilities.

The Company's investment policy is to prudently invest all funds managed by the Company in a manner which will satisfy liquidity requirements, safeguard financial assets and manage risks while optimising return on investments.

The Company's Investment Policy, is approved by the Board and reviewed annually. Investment restrictions and guidelines form an integral part of risk control. The Company's investment policy is designed to ensure diversification of investments across a range of highly rated financial institutions and to minimise risk through the use of risk based limits. The majority of investments take the form of reverse repurchase agreements against high quality sovereign securities. No investments are made for speculative purposes. In addition, specific limits are set to control risks (e.g. liquidity, credit requirement, counterparty concentration, maturity and interest rate risks) of the investments.

(i) Foreign exchange risk management

Foreign exchange risk is the risk that the value or cash flows of an asset, liability or highly probable forecast transaction denominated in foreign currency (i.e. a currency other than the functional currency of the Company) will fluctuate because of changes in foreign exchange rates. The Company may invest in non-USD securities from time to time.

The Company is exposed to foreign currency risk arising from payments of various expenditures (predominately in GBP, a significant component of which is staff costs) and investments and bank deposits denominated in foreign currencies (mainly EUR). Its risk management policy is to forecast the amount of GBP expenditures for each forthcoming year and to enter into forward currency contracts to cover a high proportion of its forecast costs. The Company also forecasts its GBP payments and ensures it holds sufficient GBP bank deposits to cover future payments or converts from USD to GBP as soon as deemed appropriate.

The Company primarily receives margin from Clearing Members in USD, but also holds margin in other currencies – EUR, GBP, JPY and CNH. Margin received from Clearing Members is invested primarily through reverse repurchase arrangements against high quality government securities. Where the securities are not denominated in USD the Company requires an additional haircut to cover the notional foreign exchange risk that would arise in the event of the non-return of the USD cash.

The Company's derivative asset and liability positions are denominated in the Company's core clearing currencies – which are equal and opposite positions and as a result there is no net foreign exchange exposure for the Company on these positions.

Notes to the financial statements (continued)

16 Financial risk management (continued)

a) Market risk (continued)

(i) Foreign exchange risk management (continued)

The tables below summarise the Company's financial assets and financial liabilities denominated in foreign currencies:

	At 31 December 2023						
	$ 000's EUR	$ 000's HKD	$ 000's GBP	$ 000's JPY	$ 000's CNH	$ 000's CAD	$ 000's Total
Cash and cash equivalents	252,475	-	353,331	45,488	80	-	651,374
Trade and other receivables	101	-	188	12	-	-	301
Total assets	252,576	-	353,519	45,500	80	-	651,675
Trade and other payables	(775)	(32)	(20,499)	-	-	(64)	(21,370)
Amounts due to related parties	-	(348)	(6,137)	-	-	-	(6,485)
Margin deposits and default fund	(249,727)	-	(328,517)	(45,397)	-	-	(623,641)
Total liabilities	(250,502)	(380)	(355,153)	(45,397)	-	(64)	(651,496)
Total assets / (liabilities)	**2,074**	**(380)**	**(1,634)**	**103**	**80**	**(64)**	**179**
Notional effect if exchange rates change by +/- 10%	**+/-207**	**+/-38**	**+/-163**	**+/-10**	**+/-8**	**+/-6**	**+/-18**

	At 31 December 2022						
	$ 000's EUR	$ 000's HKD	$ 000's GBP	$ 000's JPY	$ 000's CNH	$ 000's CAD	$ 000's Total
Cash and cash equivalents	1,295,613	-	323,795	26,009	85	-	1,645,502
Trade and other receivables	943	-	867	8	-	-	1,818
Total assets	1,296,556	-	324,662	26,017	85	-	1,647,320
Trade and other payables	(1,031)	-	(4,126)	-	-	-	(5,157)
Amounts due to related parties	-	(160)	(3,943)	-	-	-	(4,103)
Margin deposits and default fund	(1,295,323)	-	(312,025)	(25,936)	(8)	-	(1,633,292)
Total liabilities	(1,296,354)	(160)	(320,094)	(25,936)	(8)	-	(1,642,552)
Total assets / (liabilities)	**202**	**(160)**	**4,568**	**81**	**77**	**-**	**4,768**
Notional effect if exchange rates change by +/- 10%	**+/-20**	**+/-16**	**+/-457**	**+/-8**	**+/-8**	**-**	**+/-477**

16 Financial risk management (continued)

a) Market risk (continued)

(ii) Interest rate risk management

The Company is exposed to interest rate risk arising from the cash and investment balances it maintains, the margin and default fund balances it holds from Clearing Members. The Company determines the returns paid on Clearing Member liabilities with reference to a spread against external overnight benchmark rates, as such the investment risk relates to the difference between the rate received on its investments and the amount it determines is payable to Clearing Members with reference to the overnight benchmark rates. The Company retains the ability to adjust the spread in the event of its investment activity departing from the benchmark rates.

The following table shows the average interest rates for the year applicable to each relevant category of interest bearing financial instrument held at the Statement of financial position date:

Financial assets / (liabilities)	**Amount (USD)**	**Average contractual interest rate receivable by / (payable) from the Company**	**Notional effect if interest rates change by +/- 10%**
At 31 December 2023	**$ 000's**	**%**	**$ 000's**
Short-term deposits (reverse repurchase agreements)			
- USD (own funds)	286,695	5.32%	1,526
- GBP (own funds)	11,729	5.19%	61
- USD (margin deposits and default fund)	7,971,524	5.33%	42,490
- GBP	328,517	5.18%	1,700
- EUR	249,727	3.57%	891
Financial assets measured at fair value through other comprehensive income (USD)	1,101,817	5.41%	5,966
Margin deposits and default fund			
- USD	(9,073,341)	(5.08)%	46,093
- GBP	(328,517)	(4.79)%	1,573
- EUR	(249,727)	(3.42)%	854
- JPY	(45,397)	0.32%	(14)
At 31 December 2022	**$ 000's**	**%**	**$ 000's**
Short-term deposits (reverse repurchase agreements)			
- USD (own funds)	189,367	4.32%	818
- GBP (own funds)	11,172	3.35%	37
- USD (margin deposits and default fund)	12,474,442	4.27%	53,278
- GBP	312,025	3.32%	1,037
- EUR	1,295,323	0.24%	313
Government bonds (USD)	64,449	1.36%	87
Financial assets measured at fair value through other comprehensive income (USD)	864,583	3.39%	2,931
Margin deposits and default fund			
- USD	(13,333,279)	(4.12)%	54,906
- GBP	(312,025)	(3.03)%	945
- EUR	(1,295,323)	(1.43)%	1,846
- JPY	(25,936)	(0.33)%	(9)
- CNH	(8)	7.59%	-

16 Financial risk management (continued)

a) Market risk (continued)

(iii) Market price risk management

As a CCP the Company has a balanced position in all cleared contracts and runs no significant market price risk unless a Clearing Member defaults as described at the 'Clearing and settlement-related risk management' section below. The Company has limited exposure to market price risk arising from fluctuations in the value of market-traded securities; all purchased securities are debt securities and are held to collect the contractual cashflows and therefore the Company's business model minimises market price risk.

b) Sovereign risk

Distress amongst sovereigns through market concerns over the level of government debt and the ability of certain governments to service their debts over time could have adverse effects on the Company's cleared products, margin, collateral, investments, clearing membership and the financial industry as a whole.

The Company has specific risk frameworks that manage sovereign risk for both clearing and margin collateral, and all Clearing Members are monitored regularly against a suite of stress scenarios. In addition, investment limits and counterparty and clearing membership monitoring frameworks are sensitive to changes in ratings and other financial market indicators, to ensure the Company is able to measure, monitor and mitigate exposure to sovereign risk and respond quickly to anticipated changes.

c) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset, and it results from amount and maturity mismatches of assets and liabilities. The Company employs projected cash flow analysis to manage liquidity risk by forecasting the amount of cash required and monitoring the working capital of the Company to ensure that all liabilities due and known funding requirements could be met.

Surplus cash of the Company is invested in high quality short-term investments, and the investments of the Company are kept sufficiently liquid to meet the operating needs and possible liquidity requirements of the clearing house funds and Clearing Members' margin. Other than certain derivative financial assets and liabilities and certain floating rate notes, all financial instruments of the Company have contractual maturities of less than three months.

As a result of the Company's position as the central party to each cleared trade the maturity of derivative assets will perfectly match the maturity of derivative liabilities and as a result the Company has minimal liquidity risk from derivatives.

d) Credit risk management

(i) Investment and accounts receivable-related risk management

The Company is exposed to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. It arises primarily from the Company's derivative financial assets and accounts receivables. Impairment provisions are made for losses that have been incurred at the end of the reporting period. The Company limits its exposure to credit risk by rigorously selecting the counterparties (i.e., deposit-takers, bond issuers and debtors) and by diversification.

16 Financial risk management (continued)

d) Credit risk management (continued)

(i) Investment and accounts receivable-related risk management (continued)

At 31 December 2023, the cash and cash equivalents held for Clearing Members' margin, the clearing house funds and corporate funds held were all held only with banks with a minimum rating of Baa1 (Moody's). All investments are subject to concentration limits for counterparty, sovereign and maturity approved by the Board as part of the Investment Policy.

The Company mitigates its exposure to risks relating to accounts receivable from its Clearing Members by requiring the Clearing Members to meet the Company's established financial requirements and criteria for admission as Clearing Members. The Company is obliged to return this non-cash collateral upon request when the Clearing Members' collateral obligations have been substituted with cash collateral or otherwise discharged. The Company is permitted to sell or pledge such collateral in the event of the default of a Clearing Member. Any non-cash collateral lodged at central securities depositories or custodians is subject to a lien or pledge for the services they provide in respect of the collateral held.

In addition, the Company holds non-cash collateral in the form of debt securities and gold bullion in respect of initial and variation margin posted by clearing participants. The fair value of this collateral was $3,748,446,000 as at 31 December 2023 (2022: $619,000,000).

The Company also holds securities as collateral in respect of its investments in overnight triparty reverse repurchase agreements under which it is obliged to return equivalent securities to the investment counterparties at maturity of the reverse repurchase agreements. The reverse repurchase agreements are subject to master netting agreements. The fair value of this collateral was $9,095,149,000 as at 31 December 2023 (2022: $14,982,582,000). The collateral held was not recorded on the Statement of financial position as at 31 December 2023. The collateral held, together with certain on-balance sheet debt securities amounting to $1,101,817,000 as at 31 December 2023 (2022: $923,286,000) have been pledged to the Company's investment agent and custodian banks under security arrangements for the settlement and depository services they provide in respect of the collateral and investments held.

At 31 December 2023 the Company also held cash as collateral totalling $59,408,000 (2022: $nil) for its investments in reverse repurchase agreements where cash has been provided as collateral instead of securities. These amounts are included in cash at bank and a collateral liability has been recognised in trade and other payables.

(ii) Clearing and settlement-related risk management

In the normal course of business, the Company will offer to act as the buying and selling counterparty to trades between participants, on acceptance of the Company's offer by each party two cleared contracts are formed, one between the Company and the buyer and between the Company and the seller. As a result, the Company has considerable market risk and credit risk since the Clearing Members' ability to honour their obligations in respect of their trades may be adversely impacted by economic conditions affecting the commodities markets. If the Clearing Members default on their obligations on settlement, the Company could be exposed to potential risks not otherwise accounted for in these financial statements.

The Company mitigates its exposure to risks described above by requiring the Clearing Members to meet the Company's established financial requirements and operational and other criteria for admission as a Clearing Member. All Clearing Members are required to deposit initial margin to cover the positions that they hold and also to contribute to the default fund set up by the Company to cover losses in excess of initial margin. The Company has an obligation to contribute $27,500,000 of capital as a 'skin-in-the-game' amount which must be fully utilised before it can draw on the default fund contributions from the non-defaulting Clearing Members. If these loss-absorbing resources were fully utilised the Company then has the right to call upon surviving Clearing Members to contribute up to a further three

16 Financial risk management (continued)

d) Credit risk management

(ii) Clearing and settlement-related risk management (continued)

replenishments of the default fund for additional defaults. For each additional replenishment the Company is obliged to also contribute a further amount equal to the $27,500,000 'skin-in-the-game'.

If a Clearing Member were to default the Company has arrangements and resources in place to ensure that it can respond in an orderly and efficient way. Firstly, the Company would seek transfer (port) client positions and hedge the remaining positions of the defaulting Clearing Member and then find a new counterparty to take on the remaining positions to return the Company to a matched book of contracts.

The Company is able to draw upon the defaulting Clearing Member's initial margin and other assets including the defaulting party's contribution to the Default fund held in order to cover the costs of returning to a matched book of contracts. Due to the Company's margin policies the probability of the amounts owed by a defaulting Clearing Member exceeding the amount of margin held is statistically very small. However, if the collateral posted by the defaulter was insufficient to meet the amount owed, the Company can then draw upon the remaining resources in the default waterfall process including its own capital contribution (skin-in-the-game), the remaining Default Fund and rights of replenishment.

(iii) Exposure to credit risk

At 31 December, the maximum exposure to credit risk of the financial assets of the Company were equal to their carrying amounts.

(iv) Fair values of financial assets and financial liabilities not reported at fair values

The carrying value of trade receivables and payables approximates their fair values due to their short-term nature.

17 Provisions and contingencies

<u>Contingent liabilities</u>

At 31 December 2023, the Company's contingent liabilities arose from ongoing litigation in which the Company is a defendant.

On 8 March 2022, the LME, in consultation with LME Clear, suspended trading in all nickel contracts with effect from 08:15 UK time, and took steps to ensure that no trading activity that had taken place on the LME's nickel market on or after 00:00 UK time on 8 March 2022 should result in a binding contract under the LME's rules.

The LME and LME Clear were named as defendants in two judicial review claims filed in the English High Court in 2022 (the JR Proceedings) and three related claims filed in the English High Court in 2023. The total claims amounted to approximately $600,000,000.

The JR Proceedings sought to challenge the LME's decision to ensure that no trading activity that had taken place on the LME's nickel market after 00:00 UK time on 8 March 2022 should result in a binding contract under the LME's rules (the Decision). The claimants have alleged that this Decision was unlawful on public law grounds and/or constituted a violation of their human rights.

The hearing of the Judicial Review took place from 20 to 22 June 2023, at which the Court heard submissions from the parties on the issue of whether the Decision was unlawful on public law grounds and/or constituted a violation of the claimants' human rights.

17 Contingent liabilities (continued)

On 29 November 2023, the Court gave judgment in the LME's favour on all grounds and ordered the claimants to pay the LME and LME Clear's costs of the JR Proceedings, which are to be assessed by the Court if they are not agreed with the claimants. The Company has not recognised any recovery of costs of the JR Proceedings in the financial statements as the amount is still subject to negotiation with the claimants.

One of the claimants has sought and been granted permission to appeal. The appeal is likely to be heard by the Court of Appeal during 2024. The LME management is of the view that the appeal is without merit and the LME and LME Clear will contest it vigorously.

Taking into account the current status of the claims and appeal process, the Company is of the view that a present obligation does not exist and, accordingly no provision has been made in the financial statements.

Contingent assets

The Company has not recognised any recovery of costs of the JR Proceedings in the financial statements or as a contingent asset as the amount is still subject to negotiation with the claimants.

18 Transactions with related parties

Directors

During the financial year, no contracts were entered into by the Company in which any of the Directors had a material interest.

There are no other related party transactions other than those disclosed in these financial statements.

Pension fund

The Company is a participating employer in the London Metal Exchange 1989 Pension Scheme, a trust-based defined contribution pension scheme. The principal funds are those managed in the UK.

The contributions in respect of the Company's pension scheme are disclosed in note 4.

Parent and group subsidiaries

During the years ended 31 December 2023 and 31 December 2022 the Company undertook the following transactions with other related parties.

The London Metal Exchange	**2023** **$ 000's**	**2022** **$ 000's**
Intra group licensing fee	(10,000)	(10,000)
Payroll costs for Company employees paid by LME	(15,847)	(14,570)
Shared services – staff-related	(7,058)	(7,665)
Legal fees	(6,983)	-
IT related services	(3,546)	(3,455)
Facilities costs	(671)	(561)
Other costs	(1,236)	(1,573)
	(45,341)	**(37,824)**

18 Transactions with related parties (continued)

Total monies collected by the Company as agent and paid to LME in 2023 were $179,209,000 (2022: $167,322,000).

Hong Kong Exchanges and Clearing Limited	2023 $ 000's	2022 $ 000's
Expenses in relation to share-based payments	(1,265)	(2,250)
Insurance costs	-	(56)
Other costs	(84)	(54)
IT related services	(127)	-
	(1,476)	**(2,360)**

Gangsheng Technology Services (Shenzhen) Limited	2023 $ 000's	2022 $ 000's
IT related staff costs	(314)	(308)

As at 31 December 2023 and 31 December 2022 the balances with other related parties were as follows:

	2023		2022	
	$ 000's	$ 000's	$ 000's	$ 000's
	Owed by:	Owed to:	Owed by:	Owed to:
The London Metal Exchange	-	6,513	-	7,034
Hong Kong Exchanges and Clearing Limited	-	320	-	133
Gangsheng Technology Services (Shenzhen) Limited	-	27	-	111
	-	**6,860**	**-**	**7,278**

No amounts due from related parties were past due or impaired. Amounts due to related parties have contractual payment terms of less than three months (2022: less than three months).

19 Key management compensation

Compensation for directors (included within the relevant costs in note 4) of the Company and the members of the executive committee, regarded as the key personnel who have authority for planning, directing and controlling the Company:

	2023 $ 000's	2022 $ 000's
Salaries and other short-term benefits	3,677	2,786
Share-based payments	824	1,481
Pensions	159	92
	4,660	**4,359**

20 Directors' emoluments

Directors' emoluments for the year included in staff costs are as follows:

	2023 $ 000's	2022 $ 000's
Aggregate emoluments	1,626	1,739
Company contributions paid to defined contribution pension scheme	-	5
	1,626	**1,744**

There are no retirement benefits accruing to directors under the defined contribution scheme (2022: $nil).

Remuneration of highest paid director

	2023 $ 000's	2022 $ 000's
Aggregate emoluments	594	1,004
Company contributions paid to defined contribution pension scheme	-	5
	594	**1,009**

There are no retirement benefits accruing under the defined contribution scheme (2022: $nil).

21 Long-term incentive plan

Employees of the Company are eligible to receive share awards under the Company's HKEXs Share Award Scheme (the Scheme). Following the decision to award an award sum (Awarded Sum) for the purchase of Awarded Shares to eligible employees and/or selected senior executives, the Awarded Shares are either purchased from the market or are awarded by re-granting the forfeited or unallocated shares held by the Company's Share Award Scheme. Before vesting the Awarded Shares are held in a trust set up by the Scheme.

Further shares are derived from dividends payable on the Awarded Shares held in the Scheme from scrip shares received under the scrip dividend scheme (dividend shares) and are allocated to the awardees on a pro rata basis and have the same vesting periods as the related Awarded Shares.

Employee Share Awards vest progressively over the vesting period after the shares are granted, provided that the relevant awardees (i) remain employed by the Company (ii) are made redundant or (iii) are deemed to be 'good leavers'. Effective 1 January 2023, the scheme rules relating to the vesting of shares have been amended, with any share awards granted on or after 1 January 2023 vesting in accordance with the original vesting schedule, instead of vesting immediately on the date of retirement of the awardees. Unless otherwise determined by the HKEX Board, the HKEX Remuneration Committee or the Chief Executive, the vesting period of Employee Share Awards granted was three years, and the shares would be vested in two equal tranches from the second to the third year after the shares are granted.

For awardees who do not meet the vesting criteria, the unvested shares are forfeited. The forfeited shares are held by the trustee of the Scheme who may award such shares to the awardees, taking into consideration recommendations of the HKEX Board.

21 Long-term incentive plan (continued)

For Awarded Shares granted to the employees of the Company, the fair value of the employees' services received, measured by reference to the grant date fair value, is recognised over the projected vesting period, being the period for which the services from the employees are received and is charged to staff costs and related expenses. The corresponding credit is recorded as a capital contribution in the Company's financial statements and an increase to investment in subsidiaries in HKEX's financial statements, with a corresponding credit to employee share-based compensation reserve. Fair values of awarded shares are derived from quoted market prices on the date of purchase. Any reimbursement by the Company to HKEX is offset against the capital contribution.

During 2023, Awarded Sums amounting to $1,030,000 (2022: $1,074,000) were granted to selected employees. At 31 December 2023, the allocation of shares had not yet been completed

Details of the awarded shares vesting in part or in full in 2023:

Date of award	Number of shares awarded	Average fair value per share $	Reference sum award $ 000's	Vesting period
31-Dec-20	30,617	56.57	-	9 Dec-2020 – 9 Dec-2023
31-Dec-21	34,265	58.48	-	7 Dec 2021 – 7 Dec 2024
31-Dec-22	25,639	42.24	-	8 Dec 2022 – 8 Dec 2025
31-Dec-23	-	-	1,030	8 Dec 2023 – 8 Dec 2026

Movement in the number of awarded shares outstanding:

	2023	2022
Outstanding at 1 January	36,059	60,770
Awarded	25,639	34,265
Vested	(22,938)	(32,041)
Forfeited	(782)	(693)
Good leavers	(10,624)	(26,242)
Outstanding at 31 December	**27,354**	**36,059**

22 Immediate and ultimate controlling entity

HKEX Investment (UK) Limited, a company incorporated in England and Wales, is the Company's immediate parent company. The registered address of HKEX Investment (UK) Limited is 10 Finsbury Square, London, EC2A 1AJ.

Hong Kong Exchanges and Clearing Limited, a company incorporated in Hong Kong, is the ultimate controlling entity and is the largest and smallest group to consolidate these financial statements. The registered address of Hong Kong Exchanges and Clearing Limited is 8/F, Two Exchange Square, 8 Connaught Place, Central, Hong Kong.