

# MiFIR Indirect Clearing and the LME

Date 20 October 2017



SETTING THE GLOBAL STANDARD



# Indirect Clearing and the LME

- Member firms have requested clarification as to whether indirect clearing as contemplated in the MiFIR RTS is possible in the LME market, and how that interacts with the LME Rules on Client Contracts.
- We have set out some examples of these arrangements in the following slides.
- LME Clear is currently building two new account structures to comply with the MiFIR RTS on indirect clearing:
  - An indirect clearing net omnibus account; and
  - An indirect clearing gross omnibus account.
- These accounts will be available at the end of November 2017.
- Clearing Members may elect their choice of account or accounts in order to segregate the assets and positions of indirect clients at LMEC.
- If you have any further questions, please contact your Relationship Manager.

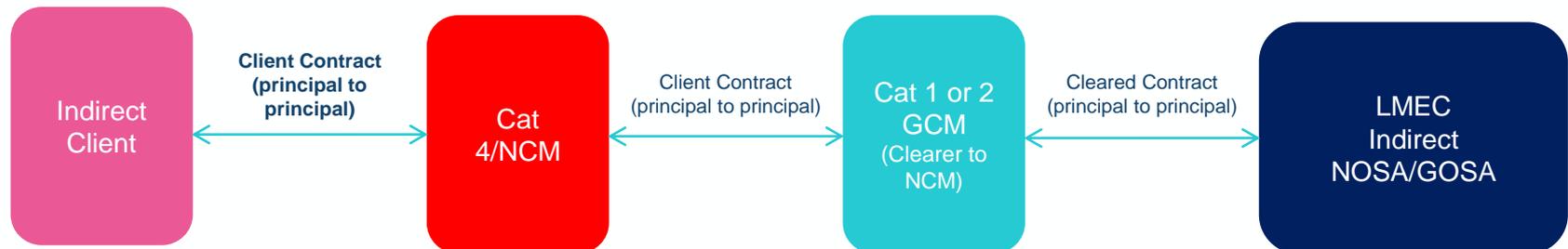
The information in this pack is provided as a summary only, and is not legal or regulatory advice. No representation is made as to its accuracy. Member firms should seek their own legal and regulatory advice as to whether the arrangements they have in place are in compliance with the LME or LMEC rules and applicable law and regulation.

# Client Contracts under LME Rules

Client Contracts must be formed in accordance with the LME Rules. The LME Rules state that only Category 1, 2 and 4 members may issue Client Contracts.

This will not change. Any Member that issues a contract that is not a Client Contract must ensure that it is clearly marked on the client statement as an OTC contract, as per the LME Rules.

Where a Client Contract is issued by a Category 4 Member to its client, and that Category 4 Member acts as clearing broker to the client, this is likely to fall into the MiFIR definition of indirect clearing, as the end client is the 'client of a client' of a clearing member. The following diagram illustrates this arrangement.



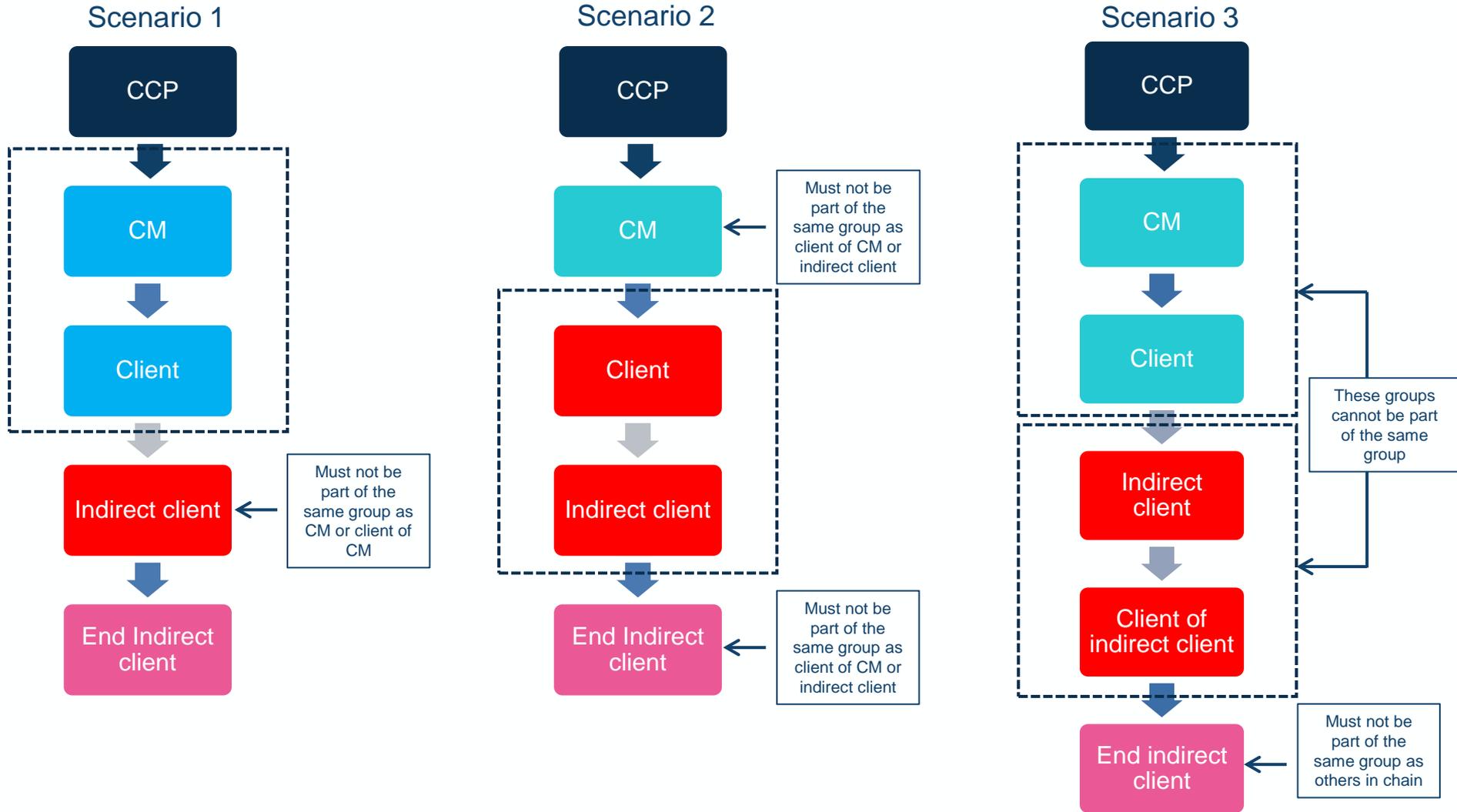
# Indirect Clearing under MiFIR

- MiFIR RTS contemplate a potentially broader set of arrangements as indirect clearing that simply the 'Cat 4' flow described on the previous slide, and focusses on client relationships and segregation rather than Client Contracts formed under the rules of an Exchange.
- For example, a client (that is not a Cat 1, 2 or 4 Member of LME) of a clearing member may have entered into a back-to-back exchange-traded derivatives contract with its client under terms of business with that client. Such contract is not a Client Contract, but the arrangement may qualify as an indirect clearing arrangement for the purposes of MiFIR.
- Members must conduct their own due diligence on what indirect clearing arrangements they have in place, having regard to the LME Rules, their contractual relationship with the client (including any agency arrangements it may have in place with such client) and regulation applicable to the Member and its clients.
- Members must also have regard to whether the arrangement constitutes a 'Long Chain' (as described on the following slide), which is permitted under the MiFIR RTS but is only eligible for net omnibus segregation.
- LME Clear will open accounts for indirect clearing at the request of the Clearing Member, as required by the MiFIR RTS.



# Long Chains

chains longer than 4 entities are only permitted where they meet the three scenarios set out in the MiFIR RTS.



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