(Registered Number: 07611628)

# LME Clear Limited

## Directors' report and financial statements

## 31 December 2019

# 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:

| | |
|---|---|
| M J Chamberlain | |
| R P Chai | (resigned 13 January 2020) |
| A J W Farnham | |
| M L Humphery | |
| R Lamba | |
| M Strimer | |
| A J Stuart | |
| R J Thornhill (Chairman) | |
| S K W Yiu | |

### Registered office

10 Finsbury Square, London EC2A 1AJ

### Independent auditors

PricewaterhouseCoopers LLP
7 More London Riverside, London SE1 2RT

# LME Clear Limited

## Strategic report

The Directors present their Strategic report on the Company for the year ended 31 December 2019. This report should be read in conjunction with the Directors' report on pages 8 to 10.

**Overview**

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

**Principal activity**

The Company is a Clearing House authorised under the European Market Infrastructure Regulation (EMIR). The Company acts as a 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 (hereinafter referred to as members and the term "member" shall be construed accordingly).

**Review of the business**

In 2019 the Company maintained a strong performance which has contributed to strengthening its position as the global hub for metals clearing.

Throughout the year, the Company has worked with its members to develop a more effective, LME-specific margin methodology and has received regulatory approval for plans to introduce Value at Risk (VaR) margining. VaR margining is expected to launch in H1 2021, and the Company has proceeded with providing the necessary education to prepare the market to switch from the Standard Portfolio Analysis of Risk (SPAN) methodology.

The Company has continued to invest member cash collateral in a secured manner versus high quality collateral, achieving efficiencies leveraged from strong market relationships and a broad market presence. The Company has ensured that all collateral management remained within internal and regulatory risk parameters and tolerance, even during volatile market periods. Collateral management for the Company has, and will continue to be underpinned by robust policies, frameworks and controls.

Key performance indicators (KPIs)

Member satisfaction, the delivery of cost effective services and critical system availability remain important measures of performance for the Company. Management employs commercial KPIs including clearing volume and capital ratios.

Financial KPIs include total revenues, total expenses, earnings before interest, tax and depreciation (EBITDA) and profit after tax (PAT). In respect of capital, the key performance indicator is compliance with regulatory capital requirements set by the Bank of England (BoE).

Against these KPIs 2019 saw a 6% growth in Average Daily Volumes (ADV) compared to 2018 (2018: 5%). Additionally, during 2019 there were no material critical system outages. The Company continued to develop its systems in order to deliver initiatives under the Company's Strategic Pathway (which sets out the Company's vision to drive growth) and be ready to clear new products in 2020.

The Company's revenues and other income increased by 6% compared to 2018 (2018: 2% increase). Whilst increases in ADV were primarily driven by the introduction during the year of a new trade type these trades were not chargeable prior to 1 May 2019. Excluding the effect of these new trades ADV decreased 2% compared to 2018. Clearing fee revenue also decreased by 2% compared to 2018 (2018: 6% decrease) but the decrease in clearing fee revenue was offset by increases in other revenue and net interest income. EBITDA and PAT were higher year-on-year due to an increase in revenue and other income partially offset by an increase in operating expenses of 2% compared to 2018 (2018: 22% increase).

## Strategic report (continued)

### Review of the business (continued)

Key performance indicators (continued)

Operating expenses increased as the Company continued to invest in systems and people to support the business. The Company continued to hold sufficient capital to meet its requirements set by the BoE.

The results show a profit before tax for the year of $40,628,000 (2018: $35,710,000), and after accounting for taxation, profit of $32,753,000 (2018: $29,070,000).

Derivative financial assets and liabilities in respect of open clearing positions with members as at 31 December 2019 were $6,161,314,000 (2018: $6,886,234,000). The movement during 2019 is as a result of decreasing metal prices and a reduction in member open interest.

Cash and cash equivalents as at 31 December 2019 were $8,559,481,000 (2018: $7,361,177,000). The movement during 2019 was due to higher initial and variation margin from members.

As at 31 December 2019 the Company had net assets of $239,082,000 (2018: $209,489,000), margin deposits of $7,844,100,000 (2018: $6,500,369,000) and default funds of $ 966,771,000 (2018: $1,091,052,000).

No final dividend is proposed in respect of 2019 (2018: $nil). The Company paid an interim dividend of $4,000,000 in the year (2018: $61,275,001).

### Strategy

The Company's strategy continues to focus on clearing the existing contracts traded on the LME. 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 members.

The Company continues to work alongside the LME on the initiatives outlined in the Strategic Pathway.

The Company will seek to assist HKEX's vision to build a leading global multi asset class exchange and associated clearing business, and capitalise on new opportunities arising, including those from the further development of China's financial markets.

### Business environment

The Company's outlook for the full 2020 financial year should be viewed against the backdrop of the Company's continued operation 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 members.

A key area of focus throughout 2019 was the impact of the UK's withdrawal from the European Union (Brexit). Further information regarding Brexit-related considerations for the Company is set out in the Principal risks and uncertainties section below.

## Strategic report (continued)

### 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. Central to the CCP's risk process is its ability to collect quality collateral from its 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 management views the principal risks and uncertainties that face the Company as those inherent to the provision of clearing services.

<u>Brexit</u>

The principal risk originally facing the Company as a result of Brexit was that certain Company members may have faced restrictions to clearing their positions after the UK's exit and that the Company's EEA members would no longer be able to access the market.

The Company's contingency plan was based on three key priorities:

1) Ensuring continued member access to LME trading systems;

2) Continued access to clearing services through the Company; and

3) Operational readiness in order to manage any additional regulatory obligations that may arise were there to be an interim period without the LME being granted trading venue equivalence.

The Company's Brexit contingency arrangements ensured that in the event of a no-deal Brexit, the Company would still be in a position to continue providing clearing services to all of its members.

Brexit occurred on 31 January 2020, with a withdrawal agreement in place. The agreement provides a transition period which will last until 31 December 2020. During this transition period, the existing regulatory framework remains unchanged, and the Company will continue to be able to provide clearing services to EEA members and clients without disruption.

During the transition period the European Union (EU) and the UK will aim to conclude a trade agreement, which may include terms governing the reciprocal cross-border provision and receipt of financial services. However, the Company will continue to engage with the relevant European regulatory authorities and take all appropriate steps to ensure it has the necessary clearing recognition in place should the trade agreement not encompass such terms.

## Strategic report (continued)

**Principal risks and uncertainties (continued)**

Operational resilience

With the ever increasing reliance placed on technology, the Company acknowledges the need to promote and 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 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 an operational incident process whereby when an incident is experienced the incident is managed through the event and learnings from it are identified which may then result in changes to processes or technology. The Company continues to make significant technology investments, including cyber security detection and response, as well as application upgrades to the LMEmercury clearing platform. To assist it in maintaining high levels of operational and systems resilience the Company maintains a dual data centre approach.

The Company commenced an exercise in 2019 to review its current Operational Resilience position. An external consultancy firm has been engaged to provide the executive with a gap analysis, an Operational Resilience Strategy and a Target Operating Model and we are looking to commence a pilot across one of the key group services as per the methodology set out in the BoE, the UK Financial Conduct Authority and the UK Prudential Regulation Authority Consultation Papers of December 2019.

Regulation and compliance

The Company closely monitors regulatory developments, arising from the EU or overseas, that could impact its business. The Company also maintains an active interest and involvement where appropriate in regulatory matters arising in the UK and other global locations. The implementation of a demanding and still evolving regulatory agenda and other market developments means that regulatory and compliance risk are key risks.

**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. When making decisions, the Board of Directors seeks to take the course of action that it considers best leads to the success of the Company over the long term, and this includes considering a broad range of stakeholders.

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.

During 2019, the Board of Directors reviewed the Company's stakeholder map and the engagement methods adopted by the Company with each stakeholder group. The Company’s key stakeholders include, HKEX, Company employees, Company members and their clients, regulators and other users of the Company.

The Company uses a variety of approaches to engage with its stakeholders throughout the year, including scheduled meetings, member 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.

Senior management, and ultimately, the Board of Directors, closely monitor stakeholder-focused metrics, such as member satisfaction, the delivery of cost effective services and critical system availability. As noted earlier in the Strategic report, these remain important measures of performance for the Company.

### Stakeholder engagement and business relationships

Ongoing stakeholder engagement is integral to the Company governance framework. The LME operates a number of advisory committees (the Advisory Committees) which are a part of the way the Company operates. For example, the LME User Committee represents the interests and views of the LME's stakeholders. During 2019, this committee provided valued input and advice to Company Directors and senior management on a number of important strategic decisions that were made.

Feedback from the Advisory Committees in general, also informed various aspects of product development and business strategy during 2019.

Suppliers

The Directors take the Company's relationships with its suppliers seriously. This continued to be a key area of focus during 2019, with Board and senior management focus on a number of key initiatives.

The Board also reiterated 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.

### Employee engagement

The Board recognises that engagement with Company employees is fundamental to the Company meeting its objective to deliver innovative clearing and settlement services for traded transactions, primarily as the clearing house for the LME. Engagement with employees is undertaken primarily by senior management, through townhalls and other focus groups.

During 2019, Company employees were invited to participate in a people survey, aimed at identifying areas of strength, as well as opportunities for further development in relation to employee engagement. Results of the survey were communicated to employees, together with a senior management action plan to address development areas. The Board also reviewed the results of this survey.

With support from the Board and senior management, various forums were established during the year, to celebrate diversity among Company employees.

Throughout 2020, 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 disability, age, gender and sexual orientation, among other diverse attributes. All decisions relating to employment practices are objective, free from bias and based on merit.

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 with regard to charitable activities are primarily led by the Charity Committee, which operates under delegation from the Board.

During the year, the Company made charitable donations amounting to $41,000 (2018: $30,000). Additionally, the Company launched a partnership with a new corporate charity partner – The Connection at St-Martins-in-the-Field. This partnership is expected to carry on throughout 2020.

The Strategic report was approved by the Board of Directors on 18 February 2020.

Signed by order of the Board of Directors by:

J Odada
Company Secretary
18 February 2020
LME Clear Limited
Registration number 07611628

# LME Clear Limited

## Directors' report

The Directors submit their annual report to the sole shareholder together with the audited financial statements for the year ended 31 December 2019.

**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.

**Principal activities**

The Company is a Clearing House authorised under the EMIR. The Company acts as a CCP for exchange contracts traded on the LME. The clearing service principally provides counterparty risk mitigation services for its clearing members.

**Results and dividend**

The profit before tax for the year ended 31 December 2019 was $40,628,000 (2018: $35,710,000) and after accounting for taxation was $32,753,000 profit (2018: $29,070,000).

The Directors do not propose the payment of a final dividend (2018: $nil). The Company paid an interim dividend of $4,000,000 in the year (2018: $61,275,001).

**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.

**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 2019 financial year and remains in force. Directors' and officers' insurance cover is also maintained for Directors of the Company.

**Future developments**

As in recent years, 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 members. As disclosed in the Strategic report, key initiatives in this regard include the transition to VaR margining and continued work on the initiatives outlined in the Company Strategic Pathway.

**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, 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 Bank of England as a Recognised Clearing House under the Financial Services and Markets Act 2000, and under EMIR.

The Company's regulatory capital requirement amounts to $123,500,000 (2018: $109,700,000) and must be maintained in cash or highly liquid financial instruments with minimal market and credit risk. This includes a contribution to the default fund of $22,900,000 (2018: 20,300,000). This contribution to the default fund is allocated on a pro-rata basis as follows as at 31 December 2019: LME base and ferrous metals $19,900,000 (2018: $15,600,000) and LMEprecious $3,000,000 (2018: $4,700,000). 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.

### Statement of directors' responsibilities

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 International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the 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 IFRSs as adopted by the European Union 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 also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## Directors' report (continued)

**Statement of directors' responsibilities (continued)**

The Directors are 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.

**Disclosure of information to auditors**

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.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

**Independent auditors**

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office.

**Going concern**

The Directors are satisfied that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

The Directors' report was approved by the Board of Directors on 18 February 2020.

Signed by order of the Board by:

J. Odada
Company Secretary
18 February 2020
LME Clear Limited

# Independent auditors' report to the member 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 2019 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Directors' report and financial statements (the "Annual Report"), which comprise: the Statement of financial position as at 31 December 2019; the Statement of profit or loss and other comprehensive income, the Statement of cash flows, the Statement of changes in equity 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

ISAs (UK) require us to report to you when:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern. For example, the terms of the United Kingdom's withdrawal from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the Company's trade, customers, suppliers and the wider economy.

## Independent auditors' report to the member 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 the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require 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 2019 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 set out on pages 9-10, 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 member 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.

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 member 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.

### 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 received 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.

Claire Sandford (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
18 February 2020

# LME Clear Limited

## Statement of profit or loss and other comprehensive income
## For the year ended 31 December 2019

| | Note | 2019<br>$ 000's | 2018<br>$ 000's |
|---|---|---|---|
| Clearing and settlement fees | | 64,385 | 65,823 |
| Other revenue | | 7,381 | 4,454 |
| Interest income | | 155,503 | 152,838 |
| Interest expense | | (128,727) | (129,712) |
| Net interest income | | 26,776 | 23,126 |
| **Revenue and other income** | 3 | **98,542** | **93,403** |
| Operating expenses | 4 | (58,104) | (57,001) |
| Other gains / (losses) | | 190 | (692) |
| **Profit before tax** | | **40,628** | **35,710** |
| Taxation | 5 | (7,875) | (6,640) |
| **Profit for the year** | | **32,753** | **29,070** |
| Cash flow hedges | | 251 | (23) |
| Changes in fair value of financial assets measured at fair value through other comprehensive income / (expense) | | 551 | (156) |
| **Other comprehensive income / (expense), net of tax[1]** | | **802** | **(179)** |
| **Total comprehensive income** | | **33,555** | **28,891** |

[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 2019 (2018: $nil). The Company paid interim dividends of $4,000,000 in the year (2018: $61,275,001).

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

The notes on pages 18 to 48 are an integral part of these financial statements.

# LME Clear Limited

## Statement of financial position
## As at 31 December 2019

| | Note | 2019<br>$ 000's | 2018<br>$ 000's |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Intangible assets | 6 | 19,834 | 22,897 |
| Property, plant and equipment | 7 | 930 | 1 |
| Financial assets measured at amortised cost | | 79,428 | - |
| Deferred tax asset | 8 | 247 | 158 |
| | | **100,439** | **23,056** |
| **Current assets** | | | |
| Trade and other receivables | 9 | 10,563 | 5,829 |
| Cash and cash equivalents | 10 | 8,559,481 | 7,361,177 |
| Financial assets measured at amortised cost | | 1,744 | 29,912 |
| Financial assets measured at fair value through other comprehensive income | 12 | 392,624 | 390,022 |
| Derivative financial assets | 12 | 6,161,314 | 6,886,234 |
| | | **15,125,726** | **14,673,174** |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 11 | 10,370 | 6,430 |
| Derivative financial liabilities | 12 | 6,161,314 | 6,886,234 |
| Members' contribution to clearing house funds | 12 | 966,771 | 1,091,052 |
| Margin deposits from clearing participants | 12 | 7,844,100 | 6,500,369 |
| Taxation payable | | 4,131 | 2,260 |
| Amount due to fellow undertaking | 17 | 317 | 260 |
| | | **14,987,003** | **14,486,605** |
| **Net current assets** | | **138,723** | **186,569** |
| **Non-current liabilities** | | | |
| Deferred tax liability | 8 | 80 | 136 |
| **Net assets** | | **239,082** | **209,489** |
| **Equity** | | | |
| Share capital | 13 | 178,701 | 178,701 |
| Foreign currency translation reserve | | (1,363) | (1,363) |
| Hedging reserve | | 251 | - |
| Revaluation reserve | | (144) | (695) |
| Retained earnings | | 61,637 | 32,846 |
| **Total equity** | | **239,082** | **209,489** |

These financial statements, including the notes on pages 18 to 48 were approved by the Board of Directors and signed on its behalf by:

A Farnham
Director
18 February 2020

# LME Clear Limited

## Statement of changes in equity
## For the year ended 31 December 2019

| | 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 2019** | | **178,701** | **(1,363)** | **-** | **(695)** | **32,846** | **209,489** |
| Profit for the year | | - | - | - | - | 32,753 | **32,753** |
| Other comprehensive income – cash flow hedge and revaluation reserve | | - | - | 251 | 551 | - | **802** |
| **Total comprehensive income** | | - | - | **251** | **551** | **32,753** | **33,555** |
| Transactions with shareholder - Interim dividend | 15 | - | - | - | - | (4,000) | **(4,000)** |
| Tax credit to equity reserves | 5 | - | - | - | - | 38 | **38** |
| **At 31 December 2019** | | **178,701** | **(1,363)** | **251** | **(144)** | **61,637** | **239,082** |

## For the year ended 31 December 2018

| | 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 2018** | | **178,701** | **(1,363)** | **23** | **-** | **64,558** | **241,919** |
| Effect of adoption of IFRS 9 | | - | - | - | (539) | 539 | - |
| **At 1 January 2018 restated** | | **178,701** | **(1,363)** | **23** | **(539)** | **65,097** | **241,919** |
| Profit for the year | | - | - | - | - | 29,070 | **29,070** |
| Other comprehensive expense – cash flow hedge and revaluation reserve | | - | - | (23) | (156) | - | **(179)** |
| **Total comprehensive income** | | - | - | **(23)** | **(156)** | **29,070** | **28,891** |
| Transactions with shareholder - Interim dividend | 15 | - | - | - | - | (61,275) | **(61,275)** |
| Tax charge to equity reserves | 5 | - | - | - | - | (46) | **(46)** |
| **At 31 December 2018** | | **178,701** | **(1,363)** | **-** | **(695)** | **32,846** | **209,489** |

The notes on pages 18 to 48 are an integral part of these financial statements.

## Statement of cash flows
## For the year ended 31 December 2019

| | Note | 2019<br>$ 000's | 2018<br>$ 000's |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Net cash inflow / (outflow) from operating activities | 14 | 1,215,837 | (4,193,634) |
| Effects of foreign exchange movements | | 441 | - |
| Tax paid | | (6,109) | (7,703) |
| **Net cash (outflow) / inflow from operating activities** | | **1,210,169** | **(4,201,337)** |
| **Cash flows from investing activities** | | | |
| Purchase of intangible assets | 6 | (6,935) | (7,262) |
| Purchase of property, plant and equipment | 7 | (930) | - |
| **Net cash outflow from investing activities** | | **(7,865)** | **(7,262)** |
| **Cash flows from financing activities** | | | |
| Dividends paid to shareholder | 15 | (4,000) | (61,275) |
| **Net cash outflow from financing activities** | | **(4,000)** | **(61,275)** |
| **Net increase / (decrease) in cash and cash equivalents** | | **1,198,304** | **(4,269,874)** |
| Cash and cash equivalents at the beginning of year | | 7,361,177 | 11,631,051 |
| **Cash and cash equivalents at the end of year** | 10 | **8,559,481** | **7,361,177** |

The notes on pages 18 to 48 are an integral part of these financial statements.

## Notes to the 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 IFRS and the IFRS Interpretations Committee (IFRS IC) interpretations adopted by the EU, and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements comply with IFRS as issued by the International Accounting Standards Board (IASB) and adopted by the EU.

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.

### 1.2 New and amended standards adopted by the Company

In 2019, the Company has adopted the following new/revised IFRSs as adopted by the EU which were effective for accounting periods beginning on or after 1 January 2019:

i) Amendments to IFRS 9 – 'Financial Instruments'

ii) Amendments to IAS 28 – 'Investments in Associates'

iii) IFRIC 23 – 'Uncertainty over Income Tax Treatments'

iv) IFRS 16 – 'Leases'

These amendments were adopted with effect from 1 January 2019 and have had no material impact on the Company's results or disclosures.

### 1.3 New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2019 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 2019 and therefore have not been applied in preparing these financial statements.

i) Annual Improvements to IFRS Standards 2015 – 2017 Cycle

ii) Amendments to IAS 19 – 'Employee Benefits'

None of these are 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 or other sales tax, 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 members transacted on the London Metal Exchange (LME) are recognised in full on the trade match date.

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.
- Reporting fees in respect of LMEwire are recognised when the related services are rendered.
- 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 is presented as deferred revenue) is recognised when the customers pay considerations before the Company transfers control of the goods or satisfies a performance obligation. This represents the unsatisfied performance obligations at year end resulting from long-term contracts.

### 1.5 Staff costs and other expenses

The Company awards shares under the HKEX Group (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 reporting period.

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 in to 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 associated with maintaining computer systems are recognised as expenses as incurred.

System development costs recognised as assets are over their estimated useful lives on a straight line basis, 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.

### 1.7 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 and 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 years.

Furniture, fixtures and fittings - three to five years.

### 1 Significant accounting policies (continued)

### 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 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.

### 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.

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.

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:

i) those measured at fair value through profit or loss; or

ii) those measured at fair value through other comprehensive income; and

iii) 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 members' contributions to clearing house funds are classified as current assets as they will be liquidated whenever required.

**a) 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.

**b) 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:

i) it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

ii) 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.

### 1 Significant accounting policies (continued)

### 1.10 Financial assets (continued)

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.

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.

**c) Financial assets measured at amortised cost**

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

i) the assets are held within business model whose objective is to hold assets in order to collect contractual cash flows; and

ii) 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.

Trade and other receivables 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.

In the comparative period trade and other receivables were initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method, less provision for impairment.

*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, 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.

### 1 Significant accounting policies (continued)

### 1.10 Financial assets (continued)

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.

### 1.11 Derivative financial assets and liabilities

Derivative financial instruments include forward, futures and options contracts, comprising the outstanding derivatives contracts between the Company and its members, as the Company is the central counterparty (CCP) to all contracts traded on the LME.

Derivatives are initially recognised at fair value on the date contracts are entered into and are subsequently re-measured at their fair values. Derivatives are categorised as held for trading with changes in fair value recognised in Statement of profit or loss and other comprehensive income. All 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.

Non-cash collateral (i.e. securities) received from clearing members is not recognised on the Statement of financial position.

### 1 Significant accounting policies (continued)

### 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 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.

### 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.

#### a) 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.

#### b) 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.

### 1.16 Foreign currencies

The financial statements are presented in US dollars, 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

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.

### 1.18 Share capital

Ordinary shares are classified as equity.

### 1.19 Dividends

A final 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 IFRS as adopted by the EU and IFRS IC Interpretations.

**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.

No intangible assets were deemed to be impaired in the period.

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.

**Deferred taxation**

As described in notes 1.15 b) and 8, deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available. The Company follows the accounting policy described in note 1.15 b). The Company has made a judgement that the deferred tax asset will be recoverable using the estimated future taxable income based on the Company's approved budget which forecasts continued taxable income.

**Impairment of financial assets**

As described in notes 1.10 and 12, expected credit losses of receivables are estimated using a provision matrix based on the Company's historical credit loss experience, adjusted for factors. The Company follows the accounting policy described in note 1.10.

## Notes to the financial statements (continued)

### 3 Timing of revenue recognition

| | 2019 | 2018 |
|---|---|---|
| | $ 000's | $ 000's |
| At a point in time | 96,544 | 91,691 |
| Over time | 1,998 | 1,712 |
| | **98,542** | **93,403** |

### 4 Operating expenses

Operating expenses comprise the following:

| | 2019 | 2018 |
|---|---|---|
| | $ 000's | $ 000's |
| Wages and salaries | 19,140 | 19,028 |
| Social security costs | 1,890 | 1,583 |
| Share based payments | 1,405 | 684 |
| Other pension costs | 742 | 795 |
| Legal and professional fees | 840 | 1,206 |
| Depreciation | 1 | 1 |
| Amortisation | 9,998 | 10,288 |
| Technology costs | 5,603 | 5,293 |
| Other costs | 18,485 | 18,123 |
| **Total** | **58,104** | **57,001** |

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

| | 2019 | 2018 |
|---|---|---|
| | $ 000's | $ 000's |
| Audit of the Company's financial statements | 216 | 221 |
| Audit related assurance services | 21 | 22 |
| | **237** | **243** |

The number of permanent employees (excluding directors) was:

| | 2019 | 2018 |
|---|---|---|
| At 31 December | 61 | 57 |
| Monthly average for the year | 58 | 52 |

## Notes to the financial statements (continued)

### 5 Taxation

| | Note | 2019<br>$ 000's | 2018<br>$ 000's |
|---|---|---|---|
| **Income tax** | | | |
| Current year | | 7,882 | 6,901 |
| Adjustments in respect of prior years | | 4 | (145) |
| Foreign exchange | | 121 | (165) |
| **Total current tax** | | **8,007** | **6,591** |
| **Deferred tax** | | | |
| Deferred tax for the current year | | (156) | (145) |
| Adjustments in respect of prior years | | - | 190 |
| Change in tax rate | | 24 | 4 |
| **Total deferred tax** | **8** | **(132)** | **49** |
| **Taxation charged** | | **7,875** | **6,640** |

**Factors affecting the tax charge for the year**

The reconciling items between the standard rate of corporation tax in the UK of 19% (2018: 19%) and the taxation charge for the year are explained below:

| | 2019<br>$ 000's | 2018<br>$ 000's |
|---|---|---|
| **Profit before tax** | **40,628** | **35,710** |
| Profit before tax multiplied by the standard rate of corporation tax in the UK of 19% (2018: 19%) | 7,719 | 6,785 |
| Foreign exchange | 121 | (165) |
| Taxation on share schemes | (3) | (30) |
| Income not subject to taxation | - | (9) |
| Expenses not deductible / income not taxable | 10 | 10 |
| Adjustments in respect of prior years | 4 | 45 |
| Change in tax rate | 24 | 4 |
| **Taxation charged** | **7,875** | **6,640** |

| **Tax (credited) / charged to equity:** | 2019<br>$ 000's | 2018<br>$ 000's |
|---|---|---|
| Current tax - share options | (27) | (25) |
| Deferred tax - share options | (11) | 71 |
| **Taxation (credit) / charge** | **(38)** | **46** |

## Notes to the financial statements (continued)

### 6 Intangible assets

| For the year ended 31 December 2019 | Capitalised software in use | Capitalised software under development | Total |
|---|---|---|---|
| | $ 000's | $ 000's | $ 000's |
| **Costs** | | | |
| At 1 January 2019 | 55,738 | 4,129 | 59,867 |
| Additions | - | 6,935 | 6,935 |
| Transfer | 4,640 | (4,640) | - |
| **At 31 December 2019** | **60,378** | **6,424** | **66,802** |
| **Accumulated amortisation and impairment** | | | |
| At 1 January 2019 | (36,970) | - | (36,970) |
| Charge for the year | (9,998) | - | (9,998) |
| **At 31 December 2019** | **(46,968)** | **-** | **(46,968)** |
| **For the year ended 31 December 2018** | | | |
| **Costs** | | | |
| At 1 January 2018 | 48,395 | 4,210 | 52,605 |
| Additions | - | 7,262 | 7,262 |
| Transfer | 7,343 | (7,343) | - |
| **At 31 December 2018** | **55,738** | **4,129** | **59,867** |
| **Accumulated amortisation and impairment** | | | |
| At 1 January 2018 | (26,682) | - | (26,682) |
| Charge for the year | (10,288) | - | (10,288) |
| **At 31 December 2018** | **(36,970)** | **-** | **(36,970)** |
| **Net book value** | | | |
| **At 31 December 2019** | **13,410** | **6,424** | **19,834** |
| At 31 December 2018 | 18,768 | 4,129 | 22,897 |

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 2019 | Computer hardware | Furniture, fixture and fittings | Total |
|---|---|---|---|
| | $ 000's | $ 000's | $ 000's |
| **Costs** | | | |
| At 1 January 2019 | 1,280 | 5 | 1,285 |
| Additions | | 930 | 930 |
| **At 31 December 2019** | **1,280** | **935** | **2,215** |
| **Accumulated depreciation** | | | |
| At 1 January 2019 | (1,279) | (5) | (1,284) |
| Charge for the year | **-** | (1) | (1) |
| **At 31 December 2019** | **(1,279)** | **(6)** | **(1,285)** |
| **For the year ended 31 December 2018** | | | |
| **Costs** | | | |
| At 1 January 2018 | 1,280 | 30 | 1,310 |
| Disposals | - | (25) | (25) |
| **At 31 December 2018** | **1,280** | **5** | **1,285** |
| **Accumulated depreciation** | | | |
| At 1 January 2018 | **(1,279)** | **(4)** | **(1,283)** |
| Charge for the year | - | (1) | (1) |
| **At 31 December 2018** | **(1,279)** | **(5)** | **(1,284)** |
| **Net book value** | | | |
| **At 31 December 2019** | **1** | **929** | **930** |
| At 31 December 2018 | **1** | **-** | **1** |

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

## 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 | Research and development $ 000's | Total $ 000's |
|---|---|---|---|---|---|
| **At 1 January 2018** | **(288)** | **2** | **422** | **6** | **142** |
| Adjustments in respect of prior years credited / (charged) | | | | | |
| - to profit or loss | 2 | (2) | (190) | - | (190) |
| - to equity | - | - | (70) | - | (70) |
| Effects of changes in tax rates credited /(charged) | | | | | |
| - to profit or loss | 149 | - | (4) | - | 145 |
| - to equity | - | - | (1) | - | (1) |
| Other credits /(charges) | | | | | |
| - to profit or loss | - | - | 2 | (6) | (4) |
| **At 31 December 2018** | **(137)** | **-** | **159** | **-** | **22** |
| Effects of changes in tax rates credited /(charged) | | | | | |
| - to profit or loss | (7) | - | (17) | - | (24) |
| - to equity | - | - | 14 | - | 14 |
| Other credits /(charges) | | | | | |
| - to profit or loss | 64 | - | 92 | - | 156 |
| - to equity | - | - | (1) | - | (1) |
| **At 31 December 2019** | **(80)** | **-** | **247** | **-** | **167** |

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

Deferred tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefit through future taxable profits is probable. $180,000 of the deferred tax asset and $102,000 of the deferred tax liability will be realised in 2020, with the remaining balances being realised in more than 12 months.

### 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 and deferred tax**

The Finance Bill 2015 reduced the main rate of corporation tax from 1 April 2017 to 19%. The Finance Bill 2016 reduced the main rate of corporation tax from 1 April 2020 to 17%.

| | **2019** | **2018** |
|---|---|---|
| | **$ 000's** | **$ 000's** |
| Deferred tax asset | 247 | 158 |
| Deferred tax liability | (80) | (136) |
| **Net deferred tax asset** | **167** | **22** |

### 9 Trade and other receivables

| | **2019** | **2018** |
|---|---|---|
| | **$ 000's** | **$ 000's** |
| Accrued income | 10,116 | 5,146 |
| Prepayments | 437 | 660 |
| Other receivables | 10 | 23 |
| | **10,563** | **5,829** |

As of 31 December 2019, no trade receivables were past due or impaired (2018: none).

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.

## 9 Trade and other receivables (continued)

As at 31 December 2019 expected lifetime losses were $nil (2018: $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 (2018: $nil).

## 10 Cash and cash equivalents

The cash and cash equivalents represent cash on hand and short term investments.

| | **2019** | **2018** |
|---|---:|---:|
| | **$ 000's** | **$ 000's** |
| Cash at bank | 51,683 | 33,183 |
| Short term investments | | |
| - reverse repurchase agreements | 8,507,798 | 7,327,994 |
| | **8,559,481** | **7,361,177** |

$8,507,798,000 (2018: $7,327,994,000) 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 Risk Committee.

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 EMIR, these amounts are held in accounts separate from the Company's own resources.

The Company's own cash and cash equivalents comprise $140,747,000 (2018: $160,007,000) of cash and cash equivalents, of which $22,900,000 is restricted as the Company's own resources to be used in the default waterfall. This contribution to the default fund is allocated on a pro-rata basis as follows as at 31 December 2019: LME base and ferrous metals $19,900,000 (2018: $15,600,000) and LMEprecious $3,000,000 (2018: $4,700,000).

As of 31 December 2019, the Company held £3,200,000 cash at bank (2018: £nil), equivalent to $3,989,000 (2018: $nil) designated as hedging instruments. Further details are set out in note 12.

### 11 Trade and other payables

| | 2019 $ 000's | 2018 $ 000's |
|---|---|---|
| Social security and other taxes | 3,273 | 2,695 |
| Other payables | 248 | 263 |
| Accruals and deferred income | 6,849 | 3,472 |
| | **10,370** | **6,430** |

With the exception of deferred income, trade and other payables totalling $6,282,000 have contractual payment terms of less than three months (2018: $2,752,000).

### 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.

## 12 Financial instruments and hedge accounting (continued)

| | At 31 Dec 2019 | | |
|---|---|---|---|
| | **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 | - | 6,161,314 | 6,161,314 |
| | **-** | **6,161,314** | **6,161,314** |
| **Financial assets measured at fair value through other comprehensive income:** | | | |
| Floating rate notes | 392,624 | - | 392,624 |
| | **392,624** | **-** | **392,624** |
| **Financial liabilities measured at fair value through profit or loss:** | | | |
| Base metal futures and options derivative contracts | - | 6,161,314 | 6,161,314 |
| | **-** | **6,161,314** | **6,161,314** |
| **Net financial assets** | **392,624** | **-** | **392,624** |

| | At 31 Dec 2018 | | |
|---|---|---|---|
| | **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 | - | 6,886,234 | 6,886,234 |
| | **-** | **6,886,234** | **6,886,234** |
| **Financial assets measured at fair value through other comprehensive income:** | | | |
| Floating rate notes | 390,022 | - | 390,022 |
| | 390,022 | | 390,022 |
| **Financial liabilities measured at fair value through profit or loss:** | | | |
| Base metal futures and options derivative contracts | - | 6,886,234 | 6,886,234 |
| | **-** | **6,886,234** | **6,886,234** |
| **Net financial assets** | **390,022** | **-** | **390,022** |

During 2019 and 2018, no financial assets or financial liabilities were classified under Level 3 and there were no transfers between instruments in Level 1 and Level 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.

### 12 Financial instruments and hedge accounting (continued)

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.

Impairment

The Company has assessed that the impairment for financial assets measured at fair value through other comprehensive income and those measured at amortised cost is $33,000 (2018: $nil).

The expected credit loss was measured using the probability of default of these financial assets which are investments in debt securities. The debt securities 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. The probability of default of these assets was estimated to be 0.007%.

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 member account to its open derivative contracts as at each reporting date.

As a CCP, the Company sits in the middle of 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 $966,771,000 (2018: $1,091,052,000) and margin funds of $7,844,100,000 (2018:$6,500,369,000) are held by the Company.

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

| **As at 31 December 2019** | | | | **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 | 124,167,116 | 118,005,802 | 6,161,314 | (4,161,996) | (1,999,318) | - |
| - liabilities | (124,167,116) | (118,005,802) | (6,161,314) | 4,161,996 | - | (1,999,318) |

## 12 Financial instruments and hedge accounting (continued)

| As at 31 December 2018 | Gross amounts recognised | Gross amounts offset | Net amount presented in the Statement of financial position | Related amounts not offset in the Statement of financial position: Financial (liabilities) / assets other than cash collateral | Related amounts not offset in the Statement of financial position: Cash collateral received | Total |
|---|---|---|---|---|---|---|
| | $ 000's | $ 000's | $ 000's | $ 000's | $ 000's | $ 000's |
| Derivative financial | | | | | | |
| - assets | 164,576,978 | 157,690,744 | 6,886,234 | (3,447,572) | (3,438,662) | - |
| - liabilities | (164,576,978) | (157,690,744) | (6,886,234) | 3,447,572 | - | (3,438,662) |

Hedge accounting

A proportion of the Company's sterling cash has 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.

As at 31 December 2019 the hedging instruments totalled £3,200,000 (2018: £nil), equivalent to $3,989,000 (2018: $nil).

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

| | 2019 | 2018 |
|---|---|---|
| | $ 000's | $ 000's |
| At 1 January | - | 23 |
| Gain on hedging instruments recognised in other comprehensive income | 187 | - |
| Reclassified to profit or loss: | | |
| - wages and salaries | 64 | 96 |
| - other losses | - | (119) |
| **At 31 December** | **251** | **-** |

No ineffectiveness was recognised during 2019 (2018: $nil).

## 13 Share capital

| | 2019<br>$ 000's | 2018<br>$ 000's |
|---|---|---|
| Total share capital | 178,701 | 178,701 |

The Company has 107,500,001 (2018:107,500,001) ordinary shares in issue. 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 inflow / (outflow) from operating activities:

| | 2019<br>$ 000's | 2018<br>$ 000's |
|---|---|---|
| Profit before tax | 40,628 | 35,710 |
| Adjustments for: | | |
| Depreciation and amortisation | 9,999 | 10,289 |
| Increase in intercompany payable | 57 | 115 |
| Effects of foreign exchange movements | (190) | - |
| (Increase) / decrease in financial assets measured at amortised cost | (51,260) | 50,306 |
| (Increase) / decrease in financial assets measured at fair value through profit and loss or other comprehensive income | (2,602) | 333 |
| Other non-cash movements | 549 | (80) |
| (Increase) / decrease in accounts receivable | (4,734) | 137 |
| Increase / (decrease) in accounts payable, accruals and other liabilities | 3,940 | (126) |
| Increase / (decrease) in margin deposits and default fund | 1,219,450 | (4,290,318) |
| **Net cash inflow / (outflow) from operating activities** | **1,215,837** | **(4,193,634)** |

## 15 Dividends paid to shareholder

The Company paid an interim dividend of $4,000,000 in 2019 (2018: $61,275,001).

### 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 (ie, 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 payments and to retain some GBP bank deposits to cover future expenditure or convert from USD to GBP as soon as deemed appropriate.

The Company primarily receives margin from members in USD, but also holds margin in other currencies – EUR, GBP, JPY and CNH. Margin received from 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.

## 16 Financial risk management (continued)

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

| | At 31 December 2019 | | | | | |
|---|---|---|---|---|---|---|
| | **$ 000's EUR** | **$ 000's HKD** | **$ 000's GBP** | **$ 000's JPY** | **$ 000's CNH** | **$ 000's Total** |
| Cash and cash equivalents | 72,410 | - | 1,424,095 | 48,352 | 86 | 1,544,943 |
| Trade and other receivables | 22 | - | 1,209 | 14 | - | 1,245 |
| Total assets | 72,432 | - | 1,425,304 | 48,366 | 86 | 1,546,188 |
| Trade and other payables | (1) | (611) | (5,187) | - | (3) | (5,802) |
| Amounts due to parent / fellow subsidiaries | - | (194) | (13) | - | - | (207) |
| Margin deposits and default fund | (71,725) | - | (1,414,813) | (48,271) | (4) | (1,534,813) |
| Total liabilities | (71,726) | (805) | (1,420,013) | (48,271) | (7) | (1,540,822) |
| **Total assets / (liabilities)** | **706** | **(805)** | **5,291** | **95** | **79** | **5,366** |
| **Notional effect if exchange rates change by +/- 10%** | **+/-71** | **+/-81** | **+/-529** | **+/-10** | **+/-8** | **+/-537** |

| | At 31 December 2018 | | | | | |
|---|---|---|---|---|---|---|
| | **$ 000's EUR** | **$ 000's HKD** | **$ 000's GBP** | **$ 000's JPY** | **$ 000's CNH** | **$ 000's Total** |
| Cash and cash equivalents | 49,532 | - | 1,112,749 | 29,244 | 87 | 1,191,612 |
| Trade and other receivables | 56 | - | 436 | 9 | - | 501 |
| Total assets | 49,588 | - | 1,113,185 | 29,253 | 87 | 1,192,113 |
| Trade and other payables | (44) | (468) | (3,598) | - | (89) | (4,199) |
| Amounts due to parent / fellow subsidiaries | - | (127) | (48) | - | - | (175) |
| Margin deposits and default fund | (48,465) | - | (1,095,180) | (29,166) | (5) | (1,172,816) |
| Total liabilities | (48,509) | (595) | (1,098,826) | (29,166) | (94) | (1,177,190) |
| **Total assets / (liabilities)** | **1,079** | **(595)** | **14,359** | **87** | **(7)** | **14,923** |
| **Notional effect if exchange rates change by +/- 10%** | **+/-108** | **+/-60** | **+/-1,436** | **+/-9** | **+/-1** | **+/-1,614** |

## 16 Financial risk management (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 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 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)** | **Contractual interest rate receivable by / (payable) from the Company** | **Notional effect if interest rates change by +/- 10%** |
|---|---|---|---|
| | **$ 000's** | **%** | **$ 000's** |
| Short term deposits (reverse repurchase agreements) | | | |
| - USD (own funds) | 127,384 | 1.82% | 232 |
| - GBP (own funds) | 8,926 | 0.70% | 6 |
| - USD (margin deposits and default fund) | 7,186,359 | 1.98% | 14,229 |
| - GBP | 1,414,835 | 0.72% | 1,018 |
| - EUR | 71,725 | (0.66)% | 47 |
| Financial assets measured at fair value through other comprehensive income (USD) | 392,624 | 1.68% | 660 |
| Financial assets measured at amortised cost (USD) | 81,172 | 2.20% | 179 |
| Margin deposits and default fund | | | |
| - USD | (7,275,913) | 1.38% | 10,041 |
| - GBP | (1,414,814) | 0.41% | 580 |
| - EUR | (71,725) | (0.95)% | 68 |
| - JPY | (48,271) | (0.37)% | 18 |
| - CNH | (148) | (1.06)% | - |

**16 Financial risk management (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 floating rate 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 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)

At 31 December 2019, the cash and cash equivalents held for 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 members by requiring the members to meet the Company's established financial requirements and criteria for admission as members.

In addition, the Company holds non-cash collateral in the form of debt securities, gold bullion and warrants in respect of initial and variation margin posted by clearing participants. The fair value of this collateral was $1,872,000,000 as at 31 December 2019 (2018: $1,490,000,000).

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 fair value of this collateral was $8,875,000,000 as at 31 December 2019 (2018: $7,660,000,000). The collateral held was not recorded on the Statement of financial position as at 31 December 2019.

The collateral held, together with certain on-balance sheet debt securities amounting to $474,000,000 as at 31 December 2019 (2018: $420,000,000) have been repledged to its investment agents and custodian banks under first floating charge and security arrangements for the settlement and depository services they provide in respect of the collateral and investments held. The floating charge could convert to a fixed charge in the event of contract termination, or default or insolvency of the Company.

(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 members' ability to honour their obligations in respect of their trades may be adversely impacted by economic conditions affecting the commodities markets. If the 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 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 $20,300,000 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 members. If these loss-absorbing resources were fully utilised the Company then has the right to call upon surviving members to contribute up to a further three 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 $20,300,000 'skin-in-the-game'.

If a 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 member and then find a new counterparty to take on the remaining positions to return the Company to a matched book of contracts.

### 16 Financial risk management (continued)

The Company is able to draw upon the defaulting 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 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) Financial assets that were past due but not impaired

At 31 December 2019 there were no assets that were past due but not impaired (2018: $nil).

(v) 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 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. The principal funds are those managed in the UK.

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

## 17 Transactions with related parties (continued)

**Parent and group subsidiaries**

During the years ended 31 December 2019 and 31 December 2018 the Company undertook the following transactions with other related parties.

| The London Metal Exchange | 2019<br>$ 000's | 2018<br>$ 000's |
|---|---|---|
| Intra group licensing fee | (10,000) | (10,000) |
| Payroll costs for Company employees paid by LME | (13,648) | (11,719) |
| Shared services – staff-related | (7,589) | (6,937) |
| IT related services | (2,480) | (2,161) |
| Facilities costs | (305) | (665) |
| Other costs | (2,186) | (1,964) |
| | **(36,208)** | **(33,446)** |

Total monies collected by the Company as agent and paid to LME in 2019 were $174,151,000 (2018: $173,082,000).

| Hong Kong Exchanges and Clearing Limited | 2019<br>$ 000's | 2018<br>$ 000's |
|---|---|---|
| Expenses in relation to share based payments | (1,535) | (684) |
| Insurance costs | - | (59) |
| Other costs | (83) | (48) |
| | **(1,618)** | **(791)** |

| Gangsheng Technology Services (Shenzhen) Limited | 2019<br>$ 000's | 2018<br>$ 000's |
|---|---|---|
| IT related staff costs | (581) | (413) |

For the years ended 31 December 2019 and 31 December 2018 the balances with other related parties were as follows:

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | $ 000's | $ 000's | $ 000's | $ 000's |
| | Owed by: | Owed to: | Owed by: | Owed to: |
| The London Metal Exchange | - | 150 | - | 133 |
| Hong Kong Exchanges and Clearing Limited | - | 167 | - | 127 |
| | **-** | **317** | **-** | **260** |

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 (2018: less than three months).

## Notes to the financial statements (continued)

### 18 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:

| | 2019<br>$ 000's | 2018<br>$ 000's |
|---|---|---|
| Salaries and other short term benefits | 2,836 | 2,682 |
| Share based payments | 880 | 638 |
| Remuneration for loss of office | - | 254 |
| Pensions | 185 | 245 |
| | **3,901** | **3,819** |

### 19 Directors' emoluments

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

| | 2019<br>$ 000's | 2018<br>$ 000's |
|---|---|---|
| Aggregate emoluments | 2,060 | 1,892 |
| Company contributions paid to defined contribution pension scheme | 29 | 63 |
| | **2,089** | **1,955** |

There are no retirement benefits accruing to directors under the defined contribution scheme (2018: $nil).

**Remuneration of highest paid director**

| | 2019<br>$ 000's | 2018<br>$ 000's |
|---|---|---|
| Aggregate emoluments | 1,257 | 1,113 |
| Company contributions paid to defined contribution pension scheme | 29 | 63 |
| | **1,286** | **1,176** |

There are no retirement benefits accruing under the defined contribution scheme (2018: $nil).

## 20 Long term incentive plan

Employees of the Company are eligible to receive share awards under the Company's HKEXs Share Award 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" or retired on reaching normal retirement age or suffers from permanent disability. Unless otherwise determined by the HKEX Board, the HKEX Remuneration Committee or the Chief Executive, the vesting period of Employee Share Awards granted was 3 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.

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 date of purchase. Any reimbursement by the Company to HKEX is offset against the capital contribution.

Details of the awarded shares vesting in part or in full in 2019:

| Date of award | Number of shares awarded | Average fair value per share $ | Vesting period |
|---|---|---|---|
| 30-Dec-16 | 42,989 | 24.63 | 7 Dec 2018 – 7 Dec 2019 |
| 01-Feb-17 | 25,960 | 24.96 | 1 Feb 2017 - 13 Jan 2020 |
| 29-Dec-17 | 40,311 | 29.42 | 8 Dec 2017 – 8 Dec 2020 |
| 31-Dec-18 | 65,371 | 29.68 | 7 Dec 2018 – 7 Dec 2021 |
| 31-Dec-19 | 66,195 | 32.59 | 12 Dec 2019 – 12 Dec 2022 |

## Notes to the financial statements (continued)

### 20 Long term incentive plan (continued)

Movement in the number of awarded shares:

| | 2019 | 2018 |
|---|---|---|
| Outstanding at 1 January | 119,615 | 89,889 |
| Awarded | 66,195 | 65,371 |
| Vested | (34,104) | (32,946) |
| Forfeited | (1,198) | (2,699) |
| **Outstanding at 31 December** | **150,508** | **119,615** |

### 21 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.

### 22 Events after the reporting period

The Board approved an interim dividend of $12,500,000 at its meeting in February 2020, to be paid in March 2020.